BUPA Finance PLC
(Incorporated in England and Wales with limited liability, registered number 2779134)

£330,000,000
Callable Subordinated Perpetual Guaranteed Bonds
Interest rate of 6\(\frac{1}{8}\) per cent. until 16 September, 2020
Irrevocably guaranteed on a subordinated basis by

BUPA Insurance Limited
(Incorporated in England and Wales with limited liability, registered number 3956433)

Issue Price: 99.088 per cent.

Interest on the £330,000,000 Callable Subordinated Perpetual Guaranteed Bonds (the “Bonds”) of BUPA Finance PLC (the “Issuer”) is payable from and including 16 December, 2004 (the “Issue Date”) to but excluding 16 September, 2020 at the rate of 6\(\frac{1}{8}\) per cent. per annum, annually in arrear on each Interest Payment Date. Thereafter the rate of interest for the Bonds will be recalculated every five years as described under “Terms and Conditions of the Bonds – 3.4 Reset Rate of Interest” and will continue to be payable annually in arrear on each Interest Payment Date. Payments of interest on the Bonds may be deferred (see “Terms and Conditions of the Bonds – 4 Deferral of Payments”).

The Bonds constitute subordinated obligations of the Issuer. The obligations of the Issuer to make payments in respect of the Bonds will be guaranteed on a subordinated basis by BUPA Insurance Limited (the “Guarantor”) (see “Terms and Conditions of the Bonds – 2 Status and Subordination”). Payments in respect of the Bonds will be made without deduction for or on account of taxes of the United Kingdom, unless such deduction is required by law. In the event that any such deduction is required to be made, the relevant payment or payments will be grossed up by the Issuer or the Guarantor, subject to certain exceptions as are more fully described under “Terms and Conditions of the Bonds – 8 Taxation”.

The Bonds have no maturity date. However, in certain circumstances the Issuer may at its option redeem, convert or exchange all, but not some only, of the Bonds, subject to the Solvency Condition (as defined herein) being met and the Issuer giving prior written notice to, and receiving no objection from, the Financial Services Authority (the “FSA”). The Issuer may redeem the Bonds on the first Reset Date or on any Reset Date thereafter, at their principal amount together with interest accrued to (but excluding) the Redemption Date, including Deferred Interest (as defined herein). The Issuer may also redeem the Bonds at any time if a Tax Event (as defined herein) occurs. If a Capital Disqualification Event (as defined herein) occurs the Issuer may redeem the Bonds, or convert or exchange the Bonds to another series of listed debt securities of the Issuer (with a guarantee from the Guarantor) or a series of listed debt securities of the Guarantor (see “Terms and Conditions of the Bonds – 5 Redemption, Conversion and Purchase”).

Application has been made to the FSA in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended (the “UK Listing Authority”), for the Bonds to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Bonds to be admitted to trading on the London Stock Exchange’s market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange’s market for listed securities constitute official listing on a recognised investment exchange. A copy of this Offering Circular, which comprises listing particulars approved by the UK Listing Authority, has been delivered to the Registrar of Companies in England and Wales as required by section 83 of the Financial Services and Markets Act 2000.

For a description of certain matters that prospective investors should consider see “Investment Considerations.”

The Bonds will be represented on issue by a temporary global bond in bearer form without interest coupons or talons which will be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, société anonyme, on or about the Issue Date. Interests in the temporary global bond will be exchangeable in whole or in part for interests in a permanent global bond in bearer form without interest coupons or talons, not earlier than 40 days after the Issue Date upon certification as to non-US beneficial ownership. The permanent global bond will be exchangeable for definitive Bonds with interest coupons and a talon attached only in the limited circumstances specified in the permanent global bond, as described under “Summary of the Provisions of the Bonds while in Global Form”.

Joint Lead Managers and Joint Bookrunners

ABN AMRO

HSBC
This Offering Circular comprises listing particulars given in compliance with the listing rules made by the UK Listing Authority under section 74 of the Financial Services and Markets Act 2000 for the purposes of giving information with regard to the Issuer and its subsidiaries (together the “Group”), the Guarantor and the Bonds. The Issuer accepts responsibility for all the information contained in this Offering Circular and the Guarantor accepts responsibility for the information contained in this document relating to the Guarantor and its subsidiaries. To the best of the knowledge and belief of each of the Issuer and the Guarantor (who have taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained in this Offering Circular in connection with the issue or sale of the Bonds and, if given or made, any such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Managers (as defined under “Subscription and Sale” below). Neither the delivery of this Offering Circular nor any sale made in connection therewith shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer, the Guarantor or the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Trustee or the Managers to subscribe for or purchase any of the Bonds.

The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Neither the Issuer nor the Guarantor represents that this Offering Circular may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to inform themselves about, and to observe, any applicable restrictions.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and are subject to U.S. tax law requirements. The Bonds may not be offered, sold or delivered within the United States of America or to, or for the account or benefit of, U.S. persons (as such term is defined for the purposes of Regulation S under the Securities Act) except pursuant to a registration statement under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. For a description of certain restrictions on the offering, sale and delivery of the Bonds and on the distribution of this Offering Circular, see “Subscription and Sale” below.

Neither this Offering Circular nor any other financial statements are intended to provide the basis for any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Trustee or the Managers that any recipient of this Offering Circular or any other financial statements should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Bonds should be based upon such investigations as it deems necessary.

Except where defined elsewhere in this Offering Circular, words used in this Offering Circular have the meanings given in “Terms and Conditions of the Bonds - 17 Definitions”. In this Offering Circular, unless otherwise specified or unless the context otherwise requires, all references to “pounds”, “sterling” and “£” are to the currency of the United Kingdom of Great Britain and Northern Ireland (the “United Kingdom” or “UK”).

In connection with the issue of the Bonds, ABN AMRO Bank N.V. or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which would otherwise prevail for a limited period. However, there is no obligation on ABN AMRO Bank N.V. or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference. Each of the Issuer and the Guarantor has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the Financial Services and Markets Act 2000 or the listing rules made under section 74 of the Act by the UK Listing Authority. Each of the Issuer and the Guarantor believes that
none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.

The most recently published audited consolidated accounts of the Issuer and audited unconsolidated accounts of the Guarantor are incorporated into this Offering Circular by reference. Copies may be inspected at the offices of Slaughter and May as set out in “General Information” below.
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SUMMARY OF THE PRINCIPAL FEATURES OF THE BONDS

The following summary refers to certain provisions of the Terms and Conditions of the Bonds and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Offering Circular. Terms which are defined in the "Terms and Conditions of the Bonds" have the same meaning when used in this summary.

Issuer
BUPA Finance PLC

Guarantor
BUPA Insurance Limited

Trustee
HSBC Trustee (C.I.) Limited

Issue
£330,000,000 Callable Subordinated Perpetual Guaranteed Bonds.

Interest
The Bonds bear interest on their principal amount from (and including) the Issue Date to (but excluding) 16 September, 2020 at the rate of 6.125 per cent. per annum and thereafter at a rate per annum which is determined by the Principal Paying Agent to be the aggregate of 1.60 per cent. and the Gross Redemption Yield of the Benchmark Gilt, reset every five years, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Benchmark Gilt quoted on Reuters Page "DMO/Bench1" (or such other page as may replace it for the purpose of displaying such information) at 3.00 p.m., London time on the relevant Determination Date. See Condition 3.

Interest Payment Dates
Subject to the provisions described below, interest is payable on the Bonds annually in arrear on 16 September of each year, commencing on 16 September, 2005.

Subordination
The Bonds and the Coupons constitute direct, unsecured and (save as to subordination) unconditional obligations of the Issuer and rank pari passu without any preference among themselves. The claims of the Bondholders and Couponholders in respect of the Bonds and the Coupons and under the Guarantee will, in the event of a winding up of the Issuer or the Guarantor, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer or the Guarantor (as the case may be). See Condition 2.

On any winding up of the Issuer or of the Guarantor, the Bondholders' claims will rank as if they were holders of one of a notional class of preference shares in the capital of the Issuer or (in respect of claims under the Guarantee) the Guarantor, ranking pari passu with any Parity Securities and having a preferential right to a return of assets in the winding up over the holders of all classes of issued shares for the time being in the capital of the Issuer or, as the case may be, the Guarantor. See Condition 7.6.

Solvency Condition
Except in a winding up of the Issuer or the Guarantor, or if the FSA has indicated that it has no objection to such payment, (i) all payments by the Issuer in respect of the Bonds and the Coupons are conditional upon the Issuer satisfying the Solvency Condition; and (ii) all payments by the Guarantor under the Guarantee are conditional upon the Guarantor satisfying the Solvency Condition, in each case both at the time of and immediately after any such payment and accordingly, neither the Issuer (in the case of (i)) nor the Guarantor (in case of (ii)) will make any payment and any such payment shall not be payable unless and until the Solvency Condition is so satisfied. Neither the Issuer nor the Guarantor, as applicable, may redeem or purchase any of the Bonds unless the Issuer or, as the
case may be, the Guarantor satisfies the Solvency Condition both at the time of and immediately after such redemption or purchase. See Condition 2.3.

Subject to the provisions described under “Payment of Deferred Interest” below, the Issuer, on any Interest Payment Date, defer payment of interest on the Bonds which would otherwise be payable on such date – see Condition 4.1. The Guarantor will have similar rights to defer payment obligations under the Guarantee – see Condition 2.2.

Whilst Condition 4.1 provides the Issuer with absolute discretion to defer interest payments it is the Issuer's intention to exercise this discretion only so as to defer an interest payment in the circumstances described in Conditions 4.1(A) or 4.1(B) or otherwise where the directors of the Issuer determine that it would be materially prejudicial to the interests of the policyholders of the Guarantor to make the relevant interest payment at the relevant time. However, this statement of intention is not, and is not intended to create, a legally binding agreement, undertaking, promise or representation regarding the Issuer's future conduct.

Any deferred interest will constitute Deferred Interest, which is payable only in the circumstances more particularly described in Condition 4.2. Condition 4.2 provides that, subject to satisfaction of the “Solvency Condition” described above, Deferred Interest may at the option of the Issuer or the Guarantor be paid at any time after giving not less than seven days' notice to the Bondholders. In any other case Deferred Interest will become payable only (i) on the redemption of the Bonds in accordance with Conditions 5.2, 5.3 or 5.4, or (ii) on the date on which an order is made or an effective resolution is passed for the winding up of the Issuer or the Guarantor (except a Solvent Winding Up of the Issuer or the Guarantor) in accordance with Condition 7.6, but not in any other circumstances.

At any time while any Deferred Interest remains outstanding, neither the Issuer nor the Guarantor shall: (a) irrevocably declare or pay a dividend or other distribution or payment on any class of its share capital or make any interest or coupon payment on any other of its Parity Securities or its Junior Securities (or make any payment under any guarantee in respect thereof); (b) redeem, purchase or otherwise acquire any Public Market Parity Securities or Public Market Junior Securities of the Issuer or the Guarantor, and they shall each procure that their Subsidiaries do not do so; or (c) purchase any Bonds under Condition 5.6, and they shall each procure that their Subsidiaries do not do so.

Whilst Condition 4.2 provides the Issuer and the Guarantor with absolute discretion regarding when voluntarily to elect to pay Deferred Interest, it is the Issuer's and the Guarantor's intention to elect to pay Deferred Interest on whichever is the later of: (a) the next date on which compliance with the Capital Regulations is tested for regulatory purposes and on which the Capital Adequacy Condition is met and it is not reasonably likely that the Capital Adequacy Condition will cease to be met immediately after payment of the Deferred Interest; (b) the next date on which the payment of the Deferred Interest would not cause any member of the BUPA Group to be in breach of its obligations imposed by or under the Financial Services and Markets Act 2000; and (c) the next date on which the directors of the Issuer determine that the payment of the Deferred Interest would not be materially prejudicial to the interests of the policyholders of the Guarantor. However, this statement of intention is not, and is not
intended to create, a legally binding agreement, undertaking, promise or representation regarding the Issuer's or the Guarantor's future conduct.

Notwithstanding the obligations of the Issuer and the Guarantor while Deferred Interest remains outstanding, as described above, any payment may be made and any dividends or distributions may be declared between companies in the BUPA Group, other than dividends by the Issuer or the Guarantor to their respective shareholders, and any Parity Securities or Junior Securities of the Issuer or the Guarantor may be redeemed, purchased or otherwise acquired where the funds used to redeem, purchase or acquire those securities are derived from an issue of Parity Securities or Junior Securities of the Issuer or the Guarantor (i) made at any time within the six month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same ranking as or ranking junior to those securities being redeemed, purchased or acquired.

Deferred Interest shall not itself bear interest.

Optional Redemption

The Issuer is under no obligation to redeem the Bonds at any time and the Bondholders have no right to call for their redemption. However, in certain circumstances the Issuer may at its option redeem, convert or exchange all, but not some only, of the Bonds, subject to the Solvency Condition being met and the Issuer giving prior written notice to, and receiving no objection from, the FSA.

The Issuer may redeem the Bonds on the first Reset Date or on any Reset Date thereafter, at their principal amount together with interest accrued to (but excluding) the relevant Redemption Date, including Deferred Interest. The Issuer may also redeem the Bonds at any time if a Tax Event occurs.

If a Capital Disqualification Event occurs the Issuer may redeem the Bonds, or convert or exchange the Bonds to or for another series of listed debt securities of the Issuer (with a guarantee from the Guarantor) or a series of listed debt securities of the Guarantor, provided in each such case that, subject to any changes necessary to remove the Capital Disqualification Event or to prevent a Capital Disqualification Event from occurring, the Issuer satisfies the Trustee that: (a) the replacement debt securities and any guarantee from the Guarantor will have the same material terms as the Bonds and the Guarantee; and (b) the terms of the replacement debt securities are no less favourable to the Bondholders than the current terms of the Bonds. Redemption and conversion are more particularly described in Conditions 5.2, 5.3 and 5.4.

Form

Bearer. The Bonds will be represented on issue by a temporary global bond in bearer form without Coupons or Talons (the "Temporary Global Bond") which will be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about the Issue Date. Interests in the Temporary Global Bond will be exchangeable in whole or in part for interests in a permanent global bond in bearer form without Coupons or Talons (the "Permanent Global Bond" and, together with the Temporary Global Bond, the "Global Bonds") on or after its Exchange Date upon certification as to nonU.S. beneficial ownership in the form set out in the Temporary Global Bond. The Permanent Global Bond will be exchangeable for definitive Bonds with Coupons and a Talon
attached only in the limited circumstances specified in the Permanent Global Bond. See “Summary of the Provisions of the Bonds while in Global Form”.

**Listing**

Application has been made for the Bonds to be admitted to the Official List of the UK Listing Authority and for the Bonds to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List of the UK Listing Authority together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a recognised investment exchange.

**Ratings**

The Bonds are expected to be assigned a rating of A- by Fitch Ratings Ltd and a rating of Baa2 by Moody's Investors Service, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

**Governing Law**

The Trust Deed, the Bonds, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.
INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following information in conjunction with the other information contained in this Offering Circular.

Deferral of Interest

The Issuer may, on any Interest Payment Date, defer payment of interest on the Bonds. Any deferred interest will constitute Deferred Interest, which is payable only in the circumstances more particularly described in Condition 4.2.

Perpetual debt securities

The Bonds are perpetual debt securities in respect of which there is no maturity date. The Issuer is under no obligation to redeem the Bonds at any time and the Bondholders have no right to call for their redemption.

Redemption

The Bonds have no fixed redemption date, but the Issuer may redeem all, but not some only, of the Bonds on the first Reset Date or on any Reset Date thereafter, at their principal amount together with interest accrued to (but excluding) the Redemption Date, including Deferred Interest, subject to the satisfaction of certain conditions. The Issuer may also redeem all, but not some only, of the Bonds if a Tax Event occurs. If a Capital Disqualification Event occurs, the Issuer may redeem the Bonds, or convert or exchange the Bonds to another series of listed debt securities. Redemption and conversion or exchange are more particularly described in Condition 5. A Tax Event or Capital Disqualification Event may occur at any time after the Issue Date and it is therefore possible that the Issuer would be able to redeem, convert or exchange the Bonds at any time after the Issue Date.

No limitation on issuing senior or pari passu debt or securities

There is no restriction on the amount of debt or securities which the Issuer or the Guarantor may issue which rank senior to or pari passu with the Bonds. The issue of any such debt or securities may reduce the amount recoverable by Bondholders on a winding up of the Issuer or the Guarantor or may increase the likelihood of a deferral of interest payments on the Bonds.

Restricted remedy for non-payment

In accordance with current FSA requirements for subordinated capital, in most circumstances the sole remedy against the Issuer or the Guarantor (as the case may be) available to the Trustee or any Bondholder (where entitled to do so) to recover any amounts owing in respect of the principal of, or interest on, the Bonds will be to institute proceedings for the winding up in England and Wales of the Issuer or the Guarantor (as the case may be). See Condition 7.

Absence of prior public markets

The Bonds constitute a new issue of securities by the Issuer. Prior to this issue, there will have been no public market for the Bonds. Although application has been made for the Bonds to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the market for listed securities of the London Stock Exchange, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, the Managers are under no obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Guarantor and other factors that generally influence the market prices of securities.

Subordination on winding up of the Guarantor

On a winding up of the Guarantor, there may be no surplus assets available to make payments to Bondholders under the Guarantee after the Guarantor's Senior Creditors' claims have been satisfied.

Deferral of Payments under the Guarantee

The Guarantor has the option to defer its obligation to make payments under the Guarantee to Bondholders (i) in respect of any Deferred Interest; (ii) on any Interest Payment Date in respect of any interest which would otherwise be payable on such date; (iii) in respect of any amounts due and payable
by the Issuer on a Redemption Date; or (iv) in respect of any other amounts due and payable in respect of the Bonds. The Guarantor may elect to defer the payment of such amounts for such period of time as it determines. If the Guarantor does elect to make such a deferral, the obligation to make payment of such amounts shall remain outstanding until such time as they are paid in full by the Issuer or the Guarantor and such amounts shall in any event (to the extent not paid earlier) be payable by the Guarantor in a winding up of the Guarantor.

Obligations of the Guarantor on winding up of the Issuer

On a winding up of the Issuer, the Guarantor shall meet the payment obligations of the Issuer that would otherwise have arisen under the Conditions. The Guarantor shall, in addition, have the benefit of all the provisions applicable to the Issuer in the Conditions (including, without limitation, the Issuer’s ability to redeem, convert or exchange the Bonds). However, in such circumstances, no amounts shall be payable under the Guarantee prior to the time at which such amounts would have fallen due under the Conditions in the absence of the winding up of the Issuer.

Transfer of business

(1) If the Guarantor transfers all or a substantial part of its insurance business to another body which is a member of the BUPA Group in accordance with Part VII of the Financial Services and Markets Act 2000 (a “Successor”), the Guarantor shall procure that there be included in the assets and liabilities to be transferred to such Successor all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.

(2) If the Guarantor is required to transfer the whole or a substantial part of its insurance business to a single legal entity which is a member of the BUPA Group where such transfer is pursuant to the exercise by the FSA or the Financial Services Compensation Scheme of its powers in connection with any applicable law, rule or regulation, the Guarantor shall procure that there be included in the transfer all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.
The following terms and conditions, subject to alteration, are the terms and conditions of the Bonds substantially in the form in which they will appear on the Bonds in definitive form (if issued).

The £330,000,000 Callable Subordinated Perpetual Guaranteed Bonds (the “Bonds”, which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 14 and forming a single series with the Bonds) of BUPA Finance PLC (the “Issuer”) are constituted by a trust deed (the “Trust Deed”) dated 16 December, 2004 between the Issuer, BUPA Insurance Limited as guarantor (the “Guarantor”) and HSBC Trustee (C.I.) Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “Bondholders”). The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 29 November, 2004 and the giving of the Guarantee was authorised by a resolution of the board of directors of the Guarantor passed on 29 November, 2004 and a resolution of the Guarantor’s shareholder passed on 15 December, 2004. These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds, Coupons and Talons referred to below. Copies of the Trust Deed and the paying agency agreement (the “Paying Agency Agreement”) dated 16 December, 2004 between the Issuer, the Guarantor, the Trustee, HSBC Bank plc as principal paying agent (the “Principal Paying Agent”, which expression shall include any successor thereto) and the other paying agents referred to therein (together with the Principal Paying Agent, the “Paying Agents”) are available for inspection during normal business hours by the Bondholders and the holders (the “Couponholders”) of the interest coupons (the “ Coupons”) and talons for further Coupons (the “Talons”) appertaining to Bonds in definitive form at the registered office of the Principal Paying Agent, being at the date hereof at 8 Canada Square, London E14 5HQ, and at the specified offices of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed and are deemed to have notice of all the provisions of the Paying Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Bonds are serially numbered and in bearer form in the denominations of £1,000, £10,000 and £100,000, each with Coupons and one Talon attached on issue. Bonds of one denomination may not be exchanged for Bonds of any other denomination.

1.2 Title

Title to the Bonds, Coupons and Talons will pass by delivery. The bearer of a Bond, Coupon or Talon will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be deemed to be, and shall be treated as, its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its loss or theft) and no person will be liable for so treating the bearer.

2. STATUS AND SUBORDINATION

2.1 Status and Subordination of the Bonds

(A) The Bonds and the Coupons constitute direct, unsecured and (save as to subordination) unconditional obligations of the Issuer and rank pari passu without any preference among themselves.

(B) The claims of the Bondholders and Couponholders against the Issuer in respect of the Bonds and the Coupons are subject to Condition 2.3 and will, in the event of a winding up of the Issuer, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer.

2.2 Status and Subordination of the Guarantee

(A) Save as provided in this Condition 2.2, the due payment of principal, interest and Deferred Interest in respect of the Bonds and the Coupons, and all other moneys payable by the Issuer under or pursuant to the Trust Deed, has been irrevocably and (save as to subordination) unconditionally guaranteed by the Guarantor in the Trust Deed. The obligations of the
Guarantor under such guarantee (the "Guarantee") constitute direct, unsecured and (save as to subordination) unconditional obligations of the Guarantor.

(B) For the purpose of determining whether any principal or interest, Deferred Interest or any other sum is, from time to time, due and payable by the Issuer for the purposes of the obligations of the Guarantor under the Guarantee:

(i) payments of principal, interest, Deferred Interest and other sums from time to time payable by the Issuer in respect of the Bonds shall be deemed to be due and payable on the relevant Interest Payment Date or the Redemption Date or other due date for payment pursuant to these Conditions (as the case may be) by the Issuer notwithstanding that Conditions 4.1 or 4.3 apply in respect of the Issuer, provided that, in the event that the Trustee or (where permitted under the Trust Deed) any Bondholder or Couponholder exercises any rights conferred upon it by the Guarantee in respect of any such amounts and has received payment in full and final satisfaction of such amounts, then this shall be treated as satisfying the Trustee's or such Bondholder's or Couponholder's right to payment of such amounts under the Conditions; and

(ii) where an order is made or an effective resolution is passed for the winding up of the Issuer in the circumstances set out in Condition 7.6, the Guarantor shall be obliged under the Guarantee to meet the payment obligations of the Issuer that arise under these Conditions (but without regard to the subordination of claims against the Issuer under Conditions 2.1 or 7.6) and shall have the benefit of all the provisions applicable to the Issuer in these Conditions (including, without limitation, the Issuer's ability to redeem, convert or exchange the Bonds in the circumstances set out in Condition 5), and accordingly all references to the Issuer shall be construed as references to the Guarantor, provided that in such circumstances, no amounts shall be payable under the Guarantee prior to the time at which such amounts would have fallen due under the Conditions in the absence of the winding up of the Issuer.

(C) Notwithstanding any other provision of the Bonds or the Trust Deed, the Guarantor may defer any payments required to be made under the Guarantee:

(i) in respect of any Deferred Interest;

(ii) on any Interest Payment Date in respect of any interest on the Bonds which would otherwise be payable on such date;

(iii) in respect of any amounts due and payable by the Issuer on the Redemption Date; or

(iv) in respect of any other amounts due and payable in respect of the Bonds,

(such amounts referred to in (i) to (iv) above which the Guarantor shall be entitled to defer collectively being "Relevant Amounts").

Subject to this Condition 2.2, the Guarantor may elect to defer the payment of such Relevant Amounts for such period of time as the Guarantor shall determine, provided that the obligation to make payment of such Relevant Amounts shall remain outstanding until such time as they are paid in full by the Issuer or the Guarantor and such Relevant Amounts shall, for the avoidance of doubt, be payable by the Guarantor in a winding up of the Guarantor as provided in Condition 7.6.

Any payment which for the time being is not made by virtue of this Condition 2.2(C) shall not constitute a default for any purpose (including, but without limitation, Condition 7) on the part of the Guarantor.

For the avoidance of doubt, all amounts payable by the Issuer in respect of (i) Deferred Interest, (ii) interest on the Bonds, (iii) any amounts due and payable on the redemption of the Bonds in accordance with Condition 5 or (iv) any other amount due and payable in respect of the Bonds shall remain due and payable by the Issuer subject to Condition 2.2(B)(i) to the extent provided for by these Conditions and no provision of the Trust Deed or these Conditions relating to the Guarantee shall be deemed to relieve the Issuer of any such liability.

(D) The claims of the Bondholders and Couponholders against the Guarantor under the Guarantee are subject to Condition 2.3 and will, in the event of the winding up of the Guarantor.
 Guarantor, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Guarantor.

(E) The liability of the Guarantor under the Guarantee will not exceed the extent of the Guarantor's assets available to make payment in respect thereof.

(F) Amounts payable under the Guarantee in respect of which the Solvency Condition is not satisfied on the date upon which the same would otherwise be due and payable ("Winding Up Claims of the Guarantor") will be payable by the Guarantor in a winding up of the Guarantor as provided in Condition 7.6. A Winding Up Claim of the Guarantor shall not bear interest.

2.3 Solvency Condition

(A) Except in a winding up of the Issuer or the Guarantor, or if the FSA has indicated that it has no objection to such payment, (i) all payments by the Issuer in respect of the Bonds and the Coupons are conditional upon the Issuer satisfying the Solvency Condition; and (ii) all payments by the Guarantor under the Guarantee are conditional upon the Guarantor satisfying the Solvency Condition, in each case both at the time of and immediately after any such payment. Neither the Issuer (in the case of (i)) nor the Guarantor (in the case of (ii)) will make any payment and any such payment shall not be payable unless and until the Solvency Condition is so satisfied.

(B) Neither the Issuer nor the Guarantor, as applicable, may redeem or purchase any of the Bonds unless the Issuer or, as the case may be, the Guarantor, satisfies the Solvency Condition both at the time of and immediately after any such redemption or purchase.

(C) For the purposes of these Conditions, the Issuer or, as the case may be, the Guarantor, shall satisfy the "Solvency Condition" (i) if it is able to pay its debts owed to its Senior Creditors as they fall due; and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors).

(D) A report as to whether the Issuer or the Guarantor (as the case may be) has satisfied the Solvency Condition, signed by two directors of the Issuer or the Guarantor (as the case may be) or, if there is a winding up of the Issuer or Guarantor, the liquidator of the Issuer or the Guarantor (as the case may be), shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, any Bondholder, any Couponholder and all other interested parties as correct and sufficient evidence thereof. The Trustee shall incur no liability to the Bondholders or Couponholders in respect of reliance on such a report. Where a payment by the Issuer or the Guarantor would fall due except for the non-satisfaction of the Solvency Condition, the Issuer or the Guarantor (as the case may be) shall provide such a report to the Trustee on or prior to the first date on which such payment would otherwise have fallen due.

(E) In a winding up of the Issuer or the Guarantor, the amount payable in respect of the Bonds and Coupons or, as the case may be, the Guarantee, will be determined in accordance with the subordination provisions described above and the provisions of Condition 7.6.

2.4 Set-Off

To the fullest extent permitted by applicable law, by the purchase of or subscription for any Bond or Coupon, each Bondholder and Couponholder and the Trustee, on behalf of such Bondholders and Couponholders, will be deemed to have waived any right of set-off or counterclaim that they might otherwise have against the Issuer or the Guarantor (as the case may be) whether prior to or in bankruptcy or winding up in respect of amounts owing in respect of the Bonds or Coupons or under the Guarantee or under the Trust Deed in respect thereof. Notwithstanding the preceding sentence, if any of the rights and claims of any Bondholder or Couponholder are discharged by set-off, such Bondholder or Couponholder or failing whom the Trustee on their behalf (but only to the extent to which the Trustee actually holds moneys on trust for such Bondholder or Couponholder at the relevant time) shall immediately pay an amount equal to the amount of such discharge to the Issuer or the Guarantor or, in the event of its winding up, the liquidator of the Issuer or the Guarantor and, until such time as payment is made, will hold (but in the case of the Trustee only to the extent aforesaid) an amount equal to such amount in trust for the Issuer or the Guarantor, or the liquidator.
of the Issuer or the Guarantor, and accordingly any such discharge will be deemed not to have taken place.

3. INTEREST

3.1 Rate of Interest

The Bonds bear interest on their principal amount from the Issue Date in accordance with the provisions of this Condition 3.

Subject to Conditions 2, 4 and 5, interest is payable on the Bonds annually in arrear on each Interest Payment Date, save in respect of the first interest period which shall be from (and including) the Issue Date to (but excluding) 16 September, 2005.

Where it is necessary to compute an amount of interest in respect of any Bond for a period of less than one year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if before the first Interest Payment Date, from (and including) 16 September, 2004) to (but excluding) the next (or first) scheduled Interest Payment Date.

3.2 Interest Accrual

Each Bond will cease to bear interest from (and including) the date for redemption of the Bonds pursuant to Condition 5.2, 5.3 or 5.4 unless, upon due presentation, payment of the principal in respect of the Bonds is improperly withheld or refused, in which event interest shall continue to accrue, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

3.3 Initial Rate of Interest

For the period from (and including) the Issue Date to (but excluding) the first Reset Date, the Bonds bear interest at the rate of 6.125 per cent. per annum.

3.4 Reset Rate of Interest

From (and including) the first Reset Date, the rate of interest payable on the Bonds in respect of each Reset Interest Calculation Period (the “Reset Rate of Interest”) will be the rate per annum which is determined by the Principal Paying Agent to be the aggregate of 1.60 per cent. and the Gross Redemption Yield of the Benchmark Gilt in respect of that Reset Interest Calculation Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Benchmark Gilt quoted on Reuters Page “DMO/Bench1” (or such other page as may replace it for the purpose of displaying such information) at 3:00 p.m., London time on the relevant Determination Date, provided that if such price does not appear on Reuters Page “DMO/Bench1” on the relevant Determination Date then the price of the Benchmark Gilt shall be determined by the Principal Paying Agent to be the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Market Makers at 3:00 p.m., London time on the relevant Determination Date, in each case on a dealing basis for settlement on the next following dealing day in London.

3.5 Publication of Reset Rate of Interest

The Issuer shall cause the Principal Paying Agent to give notice of the Reset Rate of Interest determined in accordance with this Condition 3 in respect of each relevant Reset Interest Calculation Period to be given to the Issuer, the Guarantor, the Trustee, the Paying Agents, any stock exchange or other relevant authority on which the Bonds are for the time being listed or admitted to trading and, in accordance with Condition 13, the Bondholders as soon as practicable after the relevant Determination Date but in any event not later than the fourth business day thereafter. As used in this Condition 3.5, “business day” means a day (not being a Saturday or Sunday) on which banks are open for business in London.

The Reset Rate of Interest so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of proven or manifest error.
3.6 Determination or Calculation by Trustee

If the Principal Paying Agent defaults for any reason in its obligation to determine the Reset Rate of Interest on the Bonds, the Trustee shall determine the Reset Rate of Interest in respect of the relevant Reset Interest Calculation Period at such rate as, in its absolute discretion (having such regard as it thinks fit to the procedure described in this Condition 3), it considers fair and reasonable in all the circumstances and such determination shall be deemed to have been made by the Principal Paying Agent and in doing so the Trustee shall be entitled to seek (at the expense of the Issuer) and rely upon advice from any reputable investment bank or other reputable and suitably qualified expert deemed appropriate by the Trustee for the purpose.

3.7 Determinations of Principal Paying Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3, whether by the Principal Paying Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Principal Paying Agent, the Trustee, the Paying Agents and all Bondholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Bondholders, the Couponholders, the Issuer or the Guarantor shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions under this Condition 3.

4. DEFERRAL OF PAYMENTS

4.1 Optional Deferral of Interest

The Issuer may, on any Interest Payment Date, elect to defer payment of interest on the Bonds which would otherwise be payable on such date, which election may be made at the Issuer's sole discretion but without prejudice to the generality of the foregoing may be made in circumstances where:

(A) the Capital Adequacy Condition has ceased to be met prior to such Interest Payment Date and will not be met on such Interest Payment Date or is reasonably likely not to be met as a result of making the payments due on such Interest Payment Date; or

(B) the payment of the interest due on such Interest Payment Date would cause any member of the BUPA Group to be in breach of its obligations imposed by or under the FSMA.

The deferral of any interest payment in accordance with this Condition 4.1 shall not constitute a default for any purpose (including, but without limitation, Condition 7) on the part of the Issuer. The Issuer shall notify the Bondholders in accordance with Condition 13 and the Trustee as soon as practicable (and in any event within 10 business days) after any Interest Payment Date in respect of which payment is deferred of the amount of such payment otherwise due on that date and the grounds upon which such deferral has been made. Subject to Condition 4.2, the Issuer may defer paying interest on each Interest Payment Date until the Redemption Date.

4.2 Deferred Interest

Any interest on the Bonds not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any earlier Interest Payment Date, in each case by virtue of Condition 4.1, will, so long as the same remains unpaid, constitute "Deferred Interest". Subject to

1 Whilst Condition 4.1 provides the Issuer with absolute discretion to defer interest payments it is the Issuer's intention to exercise this discretion only so as to defer an interest payment in the circumstances described in Conditions 4.1(A) or 4.1(B) or otherwise where the directors of the Issuer determine that it would be materially prejudicial to the interests of the policyholders of the Guarantor to make the relevant interest payment at the relevant time. However, this statement of intention is not, and is not intended to create, a legally binding agreement, undertaking, promise or representation regarding the Issuer's future conduct. This footnote does not form part of the terms and conditions of the Bonds.
Condition 2.3, any Deferred Interest may be paid by the Issuer or the Guarantor in whole or in part at any time upon the expiration of not less than seven days' notice given to the Trustee and the Principal Paying Agent and to the Bondholders in accordance with Condition 13. In any other case Deferred Interest will become payable only (i) on the redemption of the Bonds in accordance with Conditions 5.2, 5.3 or 5.4, or (ii) on the date on which an order is made or an effective resolution is passed for the winding up of the Issuer or the Guarantor (except a Solvent Winding Up in respect of the Issuer or the Guarantor) in accordance with Condition 7.6, but not in any other circumstances.

At any time while any Deferred Interest remains outstanding, neither the Issuer nor the Guarantor shall:

(A) irrevocably declare or pay a dividend or other distribution or payment on any class of its share capital or make any interest or coupon payment on any other of its Parity Securities or its Junior Securities (or make any payment under any guarantee in respect thereof);

(B) redeem, purchase or otherwise acquire any Public Market Parity Securities or Public Market Junior Securities of the Issuer or the Guarantor, and they shall each procure that their Subsidiaries do not do so; or

(C) purchase any Bonds under Condition 5.6, and they shall each procure that their Subsidiaries do not do so,

provided that, notwithstanding the foregoing:

(D) any payment may be made and any dividends or distributions may be declared between companies in the BUPA Group other than dividends by the Issuer or the Guarantor to their respective shareholders; and

(E) any Parity Securities or Junior Securities of the Issuer or the Guarantor may be redeemed, purchased or otherwise acquired where the funds used to redeem, purchase or acquire those securities are derived from an issue of Parity Securities or Junior Securities of the Issuer or the Guarantor (i) made at any time within the six month period prior to the time of such redemption, purchase or acquisition, and (ii) with the same ranking as or ranking junior on a return of assets on a winding up and in respect of all distributions and payments of interest, coupons, dividends and other amounts thereunder to those securities being redeemed, purchased or acquired. The Trustee shall be entitled to rely on a certificate signed by two directors of the Issuer or, as the case may be, the Guarantor, as to whether the redemption, purchase or acquisition falls within the exception set out above and, if the Trustee does so rely, such certificate shall, in the absence of manifest error, be conclusive and binding on the Issuer or, as the case may be, the Guarantor, the Bondholders and the Couponholders.

Where Deferred Interest is paid in part, each part payment shall be applied in payment of the Deferred Interest accrued in respect of the relevant Interest Payment Date (or consecutive Interest Payment Dates) furthest from the date of payment.

4.3 No Default

Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made by virtue of Condition 4.1 shall not constitute a default for any purpose (including, but without limitation, Condition 7) on the part of the Issuer and will not give the Bondholders or the Trustee any right to accelerate the Bonds. Deferred Interest shall not itself bear interest.

(2) Whilst Condition 4.2 provides the Issuer and the Guarantor with absolute discretion regarding when voluntarily to elect to pay Deferred Interest, it is the Issuer's and the Guarantor's intention to elect to pay Deferred Interest on whichever is the later of: (a) the next date on which compliance with the Capital Regulations is tested for regulatory purposes and on which the Capital Adequacy Condition is met and it is not reasonably likely that the Capital Adequacy Condition will cease to be met immediately after payment of the Deferred Interest; (b) the next date on which the payment of the Deferred Interest would not cause any member of the BUPA Group to be in breach of its obligations imposed by or under the FSMA; and (c) the next date on which the directors of the Issuer determine that the payment of the Deferred Interest would not be materially prejudicial to the interests of the policyholders of the Guarantor. However, this statement of intention is not, and is not intended to create, a legally binding agreement, undertaking, promise or representation regarding the Issuer's or the Guarantor's future conduct. This footnote does not form part of the terms and conditions of the Bonds.
5. REDEMPTION, CONVERSION AND PURCHASE

5.1 No Fixed Maturity

The Bonds are perpetual debt securities in respect of which there is no maturity date. The Bonds are not redeemable at the option of the Bondholders at any time.

5.2 Tax Event Redemption

If the Issuer satisfies the Trustee immediately prior to the giving of the Redemption Notice referred to below that either:

(A) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division thereof or any authority therein or thereof, or any change in the application or official interpretation of the laws or regulations of the same, which change becomes effective after 15 December, 2004, on the occasion of the next payment due in respect of the Bonds the Issuer (or, if the Guarantee is called, the Guarantor) would be required to pay additional amounts as provided for or referred to in Condition 8; or

(B) on the next Interest Payment Date the payment of interest on the Bonds would be treated, for reasons outside of the control of the Issuer and the Guarantor, as a “distribution” within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced),

(each such event, a “Tax Event”) the Issuer may, at its option at any time, having given or procured the giving of a Redemption Notice and having satisfied the FSA Requirements, redeem (subject to Condition 2.3) all, but not some only, of the Bonds on the Redemption Date at their principal amount together with interest accrued to (but excluding) the Redemption Date, including Deferred Interest. Before giving any Redemption Notice pursuant to this Condition 5.2, the Issuer shall deliver to the Trustee (1) a certificate signed by two Directors of the Issuer or, as the case may be, the Guarantor stating that either or both of the requirements referred to in (A) and (B) above will apply on the next Interest Payment Date, and (2) an opinion of independent legal advisers of recognised standing to that effect. The Trustee shall, without enquiring and without any liability therefor, accept such certificate and opinion as sufficient evidence of the satisfaction of either or both of the circumstances set out above, as the case may be, and it shall be conclusive and binding on the Bondholders and the Couponholders.

5.3 Redemption at the Issuer's Option

Unless a Redemption Notice has been given under Condition 5.2, the Issuer may, at its option, having given or procured the giving of a Redemption Notice and having satisfied the FSA Requirements, redeem (subject to Condition 2.3) all, but not some only, of the Bonds on the Redemption Date which falls on the first Reset Date or on any Reset Date thereafter at their principal amount together with interest accrued to (but excluding) the Redemption Date, including Deferred Interest.

5.4 Capital Disqualification Event Redemption or Conversion

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that a Capital Disqualification Event has occurred, the Issuer may, at its option at any time:

(A) having given or procured the giving of a Redemption Notice and having satisfied the FSA Requirements, redeem (subject to Condition 2.3) all, but not some only, of the Bonds on the Redemption Date at their Special Redemption Price if the Redemption Date falls before the first Reset Date and at their principal amount if the Redemption Date falls thereafter, in each case together with interest accrued to (but excluding) the Redemption Date, including Deferred Interest; or

(B) having given at least 30 days' but not more than 60 days' prior notice to the Trustee and to the Bondholders in accordance with Condition 13 and having satisfied applicable regulatory requirements including the FSA Requirements, convert or exchange all, but not some only, of the Bonds to or for another series of listed debt securities of the Issuer (with a guarantee from the Guarantor) or a series of listed debt securities of the Guarantor, provided in each such case that, subject to any changes necessary to remove the Capital Disqualification Event or to prevent a Capital Disqualification Event from occurring, the Issuer satisfies the Trustee immediately prior to the giving of the notice pursuant to this paragraph (B) that:
the replacement debt securities and any guarantee from the Guarantor will have the same material terms as the Bonds and the Guarantee; and

(ii) the terms of the replacement debt securities are no less favourable to the Bondholders than the current terms of the Bonds.

Before giving or procuring the giving of any Redemption Notice pursuant to (A) above or any notice to the Trustee and to the Bondholders pursuant to (B) above, the Issuer shall deliver to the Trustee (1) a certificate signed by two Directors of the Issuer or, as the case may be, the Guarantor stating that a Capital Disqualification Event has occurred, and (2) an opinion of independent legal advisers of recognised standing to that effect. The Trustee shall, without enquiring further and without any liability therefor, accept such certificate and opinion as sufficient evidence of the occurrence of a Capital Disqualification Event and they shall be conclusive and binding on the Bondholders and the Couponholders.

Before giving any notice to the Trustee and to the Bondholders pursuant to (B) above, the Issuer may give to the Trustee (1) a certificate signed by two directors of the Issuer or, as the case may be, the Guarantor confirming that the conditions in (B)(i) and (B)(ii) above are satisfied, and (2) a confirmation from a Rating Agency that the then current rating assigned to the Bonds by such agency (being the rating so assigned immediately before the giving of the notice to the Trustee and the Bondholders pursuant to (B) above) will not be downgraded or withdrawn as a result of the proposed conversion or exchange. The Trustee shall, without enquiring further and without any liability therefor, accept such certificate and confirmation as sufficient evidence of the satisfaction of the conditions in (B)(i) and (B)(ii) above and they shall be conclusive and binding on the Bondholders and the Couponholders.

5.5 Redemption Requirements

As soon as reasonably practicable following the giving of a Redemption Notice if the Issuer or the Guarantor become aware in relation to any such redemption that (1) the FSA Requirements cannot be satisfied, or (2) the condition to any such redemption as described in paragraph (B) of the definition of "Redemption Date" in Condition 17 cannot be satisfied, in each case on the date for redemption specified in the Redemption Notice, then the Issuer or the Guarantor, as the case may be, will give notice thereof to the Trustee (in a certificate signed by two directors of the Issuer or, as the case may be, the Guarantor) and to the Bondholders in accordance with Condition 13.

5.6 Purchases

The Issuer or any of its Subsidiaries for the time being may at any time and from time to time, having satisfied any applicable FSA Requirements, purchase (subject to Condition 2.3) Bonds in any manner and at any price. In each case purchases will be made together with all unmatured Coupons and all unexchanged Talons (if any) appertaining thereto.

5.7 Cancellation

All Bonds purchased by the Issuer or any of its Subsidiaries or redeemed, together with all unmatured Coupons and all unexchanged Talons appertaining thereto, shall be cancelled forthwith.

6. PAYMENTS

6.1 Method of Payment

Payments of principal and interest in respect of the Bonds will be made against presentation and surrender of the relevant Bonds or, in the case of payments of interest due on an Interest Payment Date, against surrender of the relevant Coupons at the specified office of any of the Paying Agents. Such payments will be made (subject to Condition 6.2) at the option of the Bondholder by sterling cheque drawn on, or by transfer to a sterling account maintained by the Bondholder with, a bank in London. All payments under these Conditions are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8.

6.2 Effect of Redemption on Unmatured Coupons and Unexchanged Talons

Upon the due date for redemption of any Bond:

(A) any unexchanged Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon; and
(B) unmatured Coupons (other than Coupons in respect of which there exists any Deferred Interest) relating to such Bond (whether or not attached) shall also become void and no payment shall be made in respect of them.

Where any Bond is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

6.3 Surrender of Talons
On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bond, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or at the specified office of a Paying Agent in London in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

6.4 Payment on Business Days
If the date on which any Bond or Coupon is presented for payment is not a business day, then the Bondholder or Couponholder shall not be entitled to payment of the relevant amount at the place where the Bond or Coupon was presented until the next following business day. No further interest or other payment will be made as a consequence of any such delay, or as a consequence of the day on which the relevant Bond or Coupon may be presented for payment falling after the due date. In this Condition 6.4, “business day” means a day (not being a Saturday or Sunday) on which, in the place where the Bond or Coupon is presented for payment and in London, commercial banks and foreign exchange markets settle payments in sterling.

6.5 Appointment of Agents
The Paying Agents initially appointed by the Issuer and the Guarantor and their respective initial specified offices are set out below. The Paying Agents act solely as agents of the Issuer and the Guarantor (and in certain circumstances the Trustee) and do not assume any obligation or relationship of agency or trust for or with any Bondholder or Couponholder. Subject to the terms of the Paying Agency Agreement, the Issuer or the Guarantor may, subject to the prior written approval of the Trustee, such approval not to be unreasonably withheld, at any time vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that, so long as any of the Bonds are outstanding, they will (i) at all times maintain a Paying Agent with a specified office in London; and (ii) insofar as the Issuer or the Guarantor would be obliged to pay additional amounts pursuant to Condition 8 upon presentation of the Bond or Coupon, as the case may be, for payment in the United Kingdom but for the application of Condition 8(D), maintain a Paying Agent with a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive, and which is approved by the Trustee, provided that under no circumstances shall the Issuer or the Guarantor be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State to so withhold or deduct tax.

Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Bondholders in accordance with Condition 13.

7. EVENTS OF DEFAULT AND ENFORCEMENT
7.1 Bond Default
If a Bond Default occurs and is continuing, the Trustee may, notwithstanding Condition 7.2, institute proceedings for, or prove in, the winding up in England and Wales (but not elsewhere) of the Issuer (if the Bond Default relates to the Issuer) or the Guarantor (if the Bond Default relates to the Guarantor).
7.2 **Enforcement**

The Trustee may at its discretion and without further notice institute such proceedings against the Issuer or the Guarantor (as the case may be) as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor (as the case may be) under the Trust Deed, the Bonds or the Coupons (other than any obligation for the payment of any principal or interest in respect of the Bonds or the Coupons) if the Issuer or the Guarantor (as the case may be) is in default of such term or condition and fails to remedy such default within 14 days after notice of the same has been given to the Issuer and the Guarantor by the Trustee, provided that neither the Issuer nor the Guarantor shall by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

7.3 **Entitlement of the Trustee**

The Trustee shall not be bound to take any of the actions referred to in Conditions 7.1 or 7.2 to enforce the obligations of the Issuer or the Guarantor (as the case may be) under the Trust Deed, the Bonds or the Coupons or to take any other action under the Trust Deed, the Bonds or the Coupons unless (i) it has been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding and (ii) it has been indemnified to its satisfaction.

7.4 **Rights of Bondholders**

No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for, or prove in, the winding up of the Issuer or the Guarantor unless the Trustee, having become so bound to proceed, institute proceedings or prove, fails to do so within a reasonable time and such failure is continuing, in which case any Bondholder or Couponholder shall have only such rights against the Issuer or the Guarantor (as the case may be) as those which the Trustee is entitled to exercise. Any such proceedings brought by any Bondholder or Couponholder shall be brought in the name of the Trustee, subject to such Bondholder or Couponholder indemnifying or securing the Trustee to its satisfaction.

7.5 **Extent of Remedy**

No remedy against the Issuer or the Guarantor (as the case may be) shall be available to the Trustee or any Bondholder or Couponholder (i) for the recovery of amounts owing in respect of the Bonds or the Coupons (including any principal, interest or Deferred Interest) other than the institution of proceedings for the winding up in England and Wales of the Issuer or the Guarantor (as the case may be) and proving in any winding up in England and Wales of the Issuer or the Guarantor and (ii) for the breach of any other obligation under or in respect of the Bonds or the Coupons or under the Trust Deed, other than as provided in Condition 7.2.

7.6 **Winding up Amount**

**(A)** If at any time an order is made or an effective resolution is passed for the winding up of the Issuer (except a Solvent Winding Up in respect of the Issuer), there shall be payable by the Issuer in respect of each Bond and its Coupons (in lieu of any other payment by the Issuer but subject to Condition 2) such amount, if any, as would have been payable to the Bondholder by the Issuer in respect of that Bond and its Coupons as if, on the day prior to the commencement of the winding up and thereafter, such Bondholder were the holder of one of a notional class of preference shares in the capital of the Issuer ranking pari passu with its Parity Securities and having a preferential right to a return of assets in the winding up over the holders of all classes of issued shares for the time being in the capital of the Issuer on the assumption that such preference share was entitled to receive on a return of assets in such winding up an amount equal to the unpaid principal amount of that Bond, any other amounts due and payable and unpaid under Condition 5, any unpaid Deferred Interest and any other interest that is due and payable and unpaid in respect of that Bond.

**(B)** If at any time an order is made or an effective resolution is passed for the winding up of the Guarantor (except a Solvent Winding Up in respect of the Guarantor), there shall be payable by the Guarantor under the Guarantee (in lieu of any other payment by the Guarantor but subject to Condition 2) such amount, if any, as would have been payable under the Guarantee to the Bondholder in respect of each Bond and its Coupons as if, on the day prior to the commencement of the winding up and thereafter, such Bondholder were the holder of one of a
notional class of preference shares in the capital of the Guarantor ranking pari passu with its Parity Securities and having a preferential right to a return of assets in the winding up over the holders of all classes of issued shares for the time being in the capital of the Guarantor, on the assumption that such preference share was entitled to receive on a return of assets in such winding up an amount equal to the amount payable under the Guarantee to the Bondholder in respect of that Bond and its Coupons.

8. TAXATION

All payments by the Issuer and the Guarantor in respect of the Bonds and Coupons (including Deferred Interest) will be made without withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("Taxes") imposed or levied, collected, withheld or assessed, by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor, will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders or, as the case may be, Couponholders after such withholding or deduction shall equal the amounts which would have been received in respect of the Bonds or, as the case may be, Coupons in the absence of such withholding or deduction, except that no such additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

(A) to, or to a third party on behalf of, a Bondholder who (i) would be able to avoid such withholding or deduction by making a declaration of nonresidence or similar claim for exemption but fails to do so, or (ii) is liable to such Taxes in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom or any political subdivision thereof or any authority therein or thereof other than the mere holding of such Bond or Coupon;

(B) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;

(C) presented for payment by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union;

(D) where such Bond or Coupon is presented for payment in the United Kingdom;

(E) presented for payment more than 30 days after the Relevant Date except to the extent that the Bondholder or Couponholder, as the case may be, would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or

(F) where the requirement to withhold or deduct which gives rise to the obligation to pay additional amounts arises out of any combination of (A) to (E) above.

Any reference in these Conditions to "principal" or "interest" shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed. References in these Conditions or in the Trust Deed to "interest" shall, where the context requires, include Deferred Interest.

9. PRESCRIPTION

Bonds and Coupons (which, for this purpose, shall not include Talons) will become void unless presented for payment within a period of ten years in the case of Bonds and five years in the case of Coupons from the Relevant Date relating thereto.
10. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

10.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Bonds whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes consideration of proposals to modify certain of these Conditions and the provisions of the Trust Deed, including, inter alia, (i) to modify the provisions of Condition 2, (ii) to change the currency of payments in respect of the Bonds or to modify the dates on which interest (including Deferred Interest) is payable on them or (iii) to reduce or cancel the principal amount of or interest (including Deferred Interest) on the Bonds, in which case the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. A resolution in writing signed by one or more Bondholders holding or representing not less than 75 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Bondholders duly convened and held in accordance with the provisions contained in the Trust Deed.

An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

10.2 Modification, waiver and authorisation with Trustee's Agreement

The Trustee may agree (subject to the Trust Deed) with the Issuer and the Guarantor and (in the case of the Paying Agency Agreement) the Principal Paying Agent, without the consent of the Bondholders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any provisions of the Trust Deed or the Paying Agency Agreement which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification which, in the opinion of the Trustee, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven.

10.3 Notice to FSA

Any amendment or variation to these Conditions (other than a modification which is of a formal, minor or technical nature or to correct a manifest or proven error as described in Condition 10.2 above) will require the provision of at least 30 days' notice to, and receipt of no objection within that period from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice).

10.4 Substitution

The Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Bondholders, may agree with the Issuer and the Guarantor, without the consent of the Bondholders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Condition 2 of any person or persons incorporated in any country in the world (other than the United States) (the "Substitute Obligor") in place of the Issuer or the Guarantor (or any previous Substitute Obligor under this Condition) ("Current Obligor") as a new principal debtor or guarantor (as the case may be) under the Trust Deed, the Bonds and the Coupons provided that:

(A) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed, the Bonds, the Coupons and the Talons, if any, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the Bonds, the Coupons and the Talons, if any, as the principal debtor or guarantor in place of the Current Obligor (or of any previous Substitute Obligor, as the case may be);
(B) (unless the Substitute Obligor is the Guarantor's successor in business or a holding company of the Guarantor) the obligations of any Substitute Obligor for the Guarantor under the Trust Deed, the Bonds, the Coupons and the Talons are guaranteed by the Guarantor (or the Guarantor's successor in business) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee;

(C) the Substitute Obligor shall satisfy the Solvency Condition (as defined in Condition 2.3, but as though references to the Issuer or the Guarantor were to the Substitute Obligor) at the time at which the said substitution is proposed to be effected (as conclusively evidenced to the Trustee by a certificate to such effect addressed to the Trustee and signed by two directors of the Substitute Obligor (and if the Trustee shall receive the same it shall not be required further to compare the financial strength, profits or prospects of the Current Obligor with that of the Substitute Obligor));

(D) without prejudice to the rights of reliance of the Trustee under Condition 10.4(C) above, the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Bondholders;

(E) (without prejudice to the generality of Condition 10.4(A) above) the Trustee may in the event of such substitution agree, without the consent of the Bondholders or Couponholders, if any, to a change in the law governing the Trust Deed, the Bonds, the Coupons or the Talons, if any, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders;

(F) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "Substituted Territory") other than or in addition to the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Current Obligor is subject generally (the "Current Territory"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for or, as the case may be, the addition to the references in that Condition to the Substituted Territory whereupon the Trust Deed, the Bonds, the Coupons and the Talons, if any, will be read accordingly; and

(G) the Current Obligor and the Substitute Obligor comply with such other requirements as are reasonable in the interests of the Bondholders, as the Trustee may direct.

A written confirmation from a Rating Agency, stating that the then current credit rating assigned to the Bonds by such agency will not be downgraded or withdrawn as a result of the proposed substitution of the Substitute Obligor in place of the Current Obligor, shall, in the absence of manifest error, be treated and accepted by the Trustee, the Bondholders, the Couponholders and all other interested parties as correct and sufficient evidence that the proposed substitution is not materially prejudicial to the interests of Bondholders.

Notwithstanding the foregoing:

(1) if the Guarantor transfers all or a substantial part of its insurance business to another body which is a member of the BUPA Group in accordance with Part VII of the FSMA (a "Successor"), the Guarantor shall procure that there be included in the assets and liabilities to be transferred to such Successor all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly; and

(2) if the Guarantor is required to transfer the whole or a substantial part of its insurance business to a single legal entity which is a member of the BUPA Group where such transfer is pursuant to the exercise by the FSA or the Financial Services Compensation Scheme of its powers in connection with any applicable law, rule or regulation, the Guarantor shall procure that there be included in the transfer all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee and the references to the Guarantor shall be construed accordingly.

In this Condition, "substantial part" means any part which, at the most recent valuation date, represents 50% or more of liabilities relating to the policies of the Guarantor.
10.5 Entitlement of the Trustee
In connection with any proposed exercise of the Trustee's discretions or powers (including but without limitation in relation to any proposed modification, waiver, authorisation, or substitution) and in connection with the exercise of its functions, the Trustee shall have regard to the general interests of the Bondholders as a class and the Trustee shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders, including but not limited to any consequences resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise as aforesaid, no Bondholder or Couponholder shall be entitled to claim, whether from the Issuer, the Guarantor, the Substitute Obligor, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon any individual Bondholders or Couponholders except to the extent already provided in Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10.6 Modifications and Substitutions Binding
Any modification, waiver, authorisation or substitution referred to in this Condition 10 shall be binding on all Bondholders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Bondholders in accordance with Condition 13 as soon as practicable thereafter.

10.7 Certificates
A certificate addressed to the Trustee and signed by two directors of the Issuer or the Guarantor as to whether or not the Capital Adequacy Condition (or any element thereof) is or will be satisfied or whether it is or is not reasonably likely that it will be satisfied or as to whether or not the FSA Requirements have been or will be satisfied or as to whether any payment due on an Interest Payment Date is or will be deferred in accordance with Condition 4 or as to compliance with any other provision of these Conditions or as to any other defined term herein may be treated by the Trustee as sufficient evidence thereof and, the Trustee shall not be obliged to seek further or other evidence thereof and shall not be responsible for any liabilities or losses incurred thereby or by reason thereof and if so treated by the Trustee the certificate shall from that time be conclusive and binding on all Bondholders and Couponholders, the Trustee, the Issuer, the Guarantor and all other interested parties.

11. REPLACEMENT OF THE BONDS, COUPONS AND TALONS
Should any Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice has been given in accordance with Condition 13) upon payment by the claimant of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses incurred in connection therewith (including the fees and expenses of the Principal Paying Agent) and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before any replacement Bonds, Coupons or Talons will be issued.

12. INDEMNIFICATION
The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any action unless indemnified or (where applicable) secured to its satisfaction. The Trustee is entitled to enter into business transactions with any member of the BUPA Group or any other person associated with the Issuer or the Guarantor without accounting for any profit resulting therefrom.

13. NOTICES
Notices to Bondholders will be valid if published in the Financial Times or any other daily newspaper in London which is approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. If publication as provided above is not practicable, notice will be valid if given in such other manner, and shall be deemed to have been given on such date, as the Trustee shall approve.
Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

14. FURTHER ISSUES
The Issuer may from time to time (but subject always to the Trust Deed) without the consent of the Bondholders or the Couponholders create and issue further securities (whether in bearer or registered form) either (i) ranking pari passu in all respects (or in all respects save for the first payment of interest thereon) and so that the further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it or (ii) upon such terms as to ranking, subordination, interest, redemption and otherwise as the Issuer may determine at the time of their issue. Any further securities which are to form a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or a deed supplemental to it shall, and any other further securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trustee may allow single meetings of the holders of more than one series of securities (including the Bonds) where it considers the same to be appropriate.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999
No person shall have any right to enforce any term or condition of the Bonds by virtue of the Contracts (Rights of Third Parties) Act 1999.

16. GOVERNING LAW AND JURISDICTION
The Trust Deed, the Bonds, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, the Bonds, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Bonds, Coupons or Talons may be brought in such courts.

17. DEFINITIONS
As used in these Conditions:

"Assets" means the unconsolidated gross assets of the Issuer or, as the case may be, of the Guarantor as shown in the latest published audited balance sheet of the Issuer or, as the case may be, the Guarantor, but adjusted for subsequent events, all in such manner as the directors of the Issuer or, as the case may be, the Guarantor, or the liquidator of the Issuer or, as the case may be, the Guarantor, may determine;

"Benchmark Gilt" means such United Kingdom government security having a maturity date on or about the next Reset Date as the Principal Paying Agent, with the advice of the Reference Market Makers and in consultation with the Issuer, may determine to be appropriate;

"Bond Default" with respect to the Bonds will occur if the Issuer (under the Conditions) or the Guarantor (under the Guarantee):

(A) on the Redemption Date fails to pay the principal amount of the Bonds, any Deferred Interest or any accrued but unpaid interest which in each case is payable on such Redemption Date; or

(B) on any Interest Payment Date fails to pay any interest on the Bonds payable on such date, other than in accordance with Condition 4.1,

provided that in any such case, such failure continues for 14 days;

"Bondholders" has the meaning given in the preamble to these Conditions;

"Bonds" has the meaning given in the preamble to these Conditions;

"BUPA Group" means The British United Provident Association Limited and its Subsidiaries;

"business day" has the meaning given in Condition 3.5 except in relation to Condition 6.4 of the Conditions where "business day" shall bear the meaning attributed to that term in Condition 6.4;

"Capital Adequacy Condition" means that:
(A) in relation to the Guarantor, the ratio of its Regulatory Assets to its Regulatory Capital Requirement is at least 100%;

(B) if there is a Regulatory Capital Requirement applicable to the Issuer or to all or any part of the BUPA Group (which part includes the Issuer or the Guarantor and at least one other member of the BUPA Group), that Regulatory Capital Requirement is met; and

(C) the Issuer, the Guarantor and each of the EEA Regulated Subsidiaries are in compliance with the Capital Regulations as at the date of the most recent audited accounts of the Issuer, the Guarantor or, as the case may be, that EEA Regulated Subsidiary or, if later, the date compliance with any Capital Regulations was most recently tested for regulatory purposes or, if later, any date selected by the board of directors (or other management body) of the Issuer, the Guarantor or, as the case may be, that EEA Regulated Subsidiary;

A "Capital Disqualification Event" occurs if the Bonds would not be of a kind capable of counting as cover for the Regulatory Capital Requirements applicable to the Issuer or to all or any part of the BUPA Group (which part includes the Issuer and at least one other member of the BUPA Group), as a result of any change to the Capital Regulations or the application or official interpretation thereof at any relevant time;

"Capital Regulations" means the rules and regulations of any Relevant Supervisory Authority that require the Issuer, the Guarantor or any of the EEA Regulated Subsidiaries to meet a Regulatory Capital Requirement including, without limitation, pursuant to the Directives, the PSB or any legislation, rules or regulations (whether having the force of law or otherwise) in any state within the EEA implementing the Directives;

"Conditions" means these "Terms and Conditions of the Bonds" and "Condition" means any one of them;

"Couponholders" has the meaning given in the preamble to these Conditions;

"Coupons" has the meaning given in the preamble to these Conditions;

"Current Obligor" has the meaning given in Condition 10.4;

"Current Territory" has the meaning given in Condition 10.4(F);

"Deferred Interest" has the meaning given in Condition 4.2;

"Determination Date" means, in relation to a Reset Interest Calculation Period, the fifth business day prior to the first day of such Reset Interest Calculation Period, provided that, if it is not possible for any reason to determine the Gross Redemption Yield on such day, the Determination Date shall be postponed to the first business day thereafter on which the Principal Paying Agent determines that it is possible to determine the Gross Redemption Yield;

"Directives" means Directives 98/78/EC and 2002/87/EC of the European Union, as amended;

"EEA Regulated Subsidiary" means any entity engaged in the insurance business and regulated as such by a member state of the European Economic Area in which the Issuer or the Guarantor, directly or indirectly, holds 20 per cent. or more of the voting rights or capital;

"European Economic Area" or "EEA" means the countries comprising the European Union together with Norway, Liechtenstein and Iceland;

"Extraordinary Resolution" has the meaning given in the Trust Deed;

"FSA" means the Financial Services Authority (or, if at any time the Financial Services Authority is not the relevant regulator of insurance companies operating in the United Kingdom), such other regulator as shall be the relevant regulator;

"FSA Requirements" means:

(A) at least six months’ prior written notice of the redemption, purchase, conversion or exchange (as the case may be) is given to the FSA (or such shorter period of notice as the FSA may accept), so long as such notice is required to be given; and

(B) following any such written notice, consent to such redemption, purchase, conversion or exchange is received from the FSA, or a period of six months expires without any objection to such redemption, purchase, conversion or exchange having been received from the FSA;
“FSMA” means the Financial Services and Markets Act 2000;

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security, as calculated by the Principal Paying Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts: Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi Coupon Date” (published 8 June 1998, as amended or updated from time to time) on an annual compounding basis (and rounded up (if necessary) to four decimal places);

“Guarantee” has the meaning given in Condition 2.2(A);

“Guarantor” has the meaning given in the preamble to these Conditions;

“Interest Payment Date” means 16 September of each year, commencing on 16 September, 2005;

“Issue Date” means 16 December, 2004;

“Issuer” has the meaning given in the preamble to these Conditions;

“Junior Securities” means, in respect of the Issuer or the Guarantor, ordinary shares, preference shares or any other securities which rank, as regards distributions on a return of assets on a winding up of the Issuer or (as applicable) the Guarantor and in respect of all distributions and payments of dividends and other payments thereon, after the Bonds or (as applicable) the Guarantee;

“Liabilities” means the unconsolidated gross liabilities of the Issuer or, as the case may be, the Guarantor, as shown in the latest published audited balance sheet of the Issuer or, as the case may be, the Guarantor, but adjusted for contingent liabilities and for subsequent events, all in such manner as the directors of the Issuer or, as the case may be, the Guarantor, or the liquidator of the Issuer or, as the case may be, the Guarantor, may determine;

“Parity Securities” means, in respect of the Issuer or the Guarantor, securities (other than ordinary shares, preference shares and the Bonds) issued ranking pari passu with the Bonds, or (as applicable) the Guarantee, as to rights to all coupon and interest payments and as to participation in the assets of the Issuer or (as applicable) the Guarantor in the event of a winding up;

“Paying Agency Agreement” has the meaning given in the preamble to these Conditions;

“Paying Agents” has the meaning given in the preamble to these Conditions;

“Principal Paying Agent” has the meaning given in the preamble to these Conditions;

“PSB” means the “Interim Prudential Sourcebook: Insurers” and the “Integrated Prudential Sourcebook” that forms (or will form) part of the rules of the FSA or any equivalent rules or regulatory provisions from time to time replacing either of them or the rules therein;

“Public Market Junior Securities” means Junior Securities held by persons other than a member of the BUPA Group;

“Public Market Parity Securities” means Parity Securities held by persons other than a member of the BUPA Group;

“Rating Agency” means Moody’s Investors Service Inc., Fitch Ratings Ltd, Standard & Poor’s Rating Services (a division of The McGraw-Hill Companies, Inc.), any successor in business of any of them, or any other leading rating agency in the UK which has assigned a credit rating to the Bonds;

“Redemption Date” means the date for redemption specified in a Redemption Notice, but such date will not fall within this definition unless:

(A) the FSA Requirements are satisfied on or prior to such date for redemption; and

(B) the Capital Adequacy Condition is met on such date for redemption and it is not reasonably likely that the Capital Adequacy Condition will cease to be met as a result of making the payments due on such date for redemption;

“Redemption Notice” means not less than 30 nor more than 60 days’ prior notice of redemption given to the Trustee and the Principal Paying Agent and to the Bondholders in accordance with Condition 13 (which notice shall specify a date for redemption and shall be irrevocable);
“Reference Market Makers” means three brokers of gilts or gilt edged market makers selected by the Principal Paying Agent in consultation with the Issuer and the Guarantor;

“Regulatory Assets” means the assets available to satisfy the Regulatory Capital Requirement and, under current Capital Regulations, means the amount to be included on line 11 of Form 9 (or equivalent amount on any successor form) of the annual return for an insurance company required to be delivered to the FSA pursuant to the Capital Regulations;

“Regulatory Capital Requirement” means any applicable minimum or notional margin of solvency or minimum capital or capital ratios required for insurance companies, insurance holding companies or financial groups by any Relevant Supervisory Authority;

“Relevant Date” means, in respect of any payment in relation to the Bonds or the Coupons, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 13;

“Relevant Supervisory Authority” means any regulator having jurisdiction over the Issuer, the Guarantor, or any of the EEA Regulated Subsidiaries from time to time;

“Reset Date” means 16 September, 2020 and each Interest Payment Date falling on or nearest to the fifth anniversary of the preceding reset date;

“Reset Interest Calculation Period” means each period commencing on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date for so long as any Bonds are outstanding;

“Reset Rate of Interest” has the meaning given in Condition 3.4;

“Senior Creditors” means, in respect of the Issuer or the Guarantor, all creditors of the Issuer or the Guarantor, as the case may be, who are (i) unsubordinated creditors of the Issuer or the Guarantor, as the case may be (including in the case of the Guarantor its policyholders); (ii) creditors in respect of dated subordinated debt; or (iii) other subordinated creditors of the Issuer or the Guarantor other than (x) holders of undated or perpetual subordinated indebtedness and (y) those whose claims rank or are expressed to rank pari passu with or junior to the claims in respect of the Bonds and Coupons in the case of the Issuer or under the Guarantee in the case of the Guarantor. For the avoidance of doubt and solely in respect of the issue of the Bonds, Senior Creditors includes holders of the 10½ per cent. subordinated guaranteed bonds due 2018 issued in 1993 by the Issuer and guaranteed on a subordinated basis by The British United Provident Association Limited;

“Solvency Condition” has the meaning given in Condition 2.3(C);

“Solvent Winding Up” means, in respect of the Issuer or the Guarantor, a solvent winding up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer or, as the case may be, the Guarantor, of a successor in business, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders and (ii) do not provide that the Bonds shall thereby become payable;

“Special Redemption Price” means, in respect of each Bond, the higher of the principal amount of such Bond and the amount which is the sum of:

(A) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards) of the principal amount per Bond, at which the Gross Redemption Yield on the Bonds on the third business day prior to the Redemption Date (assuming for this purpose that the Bonds are to be redeemed at their principal amount on the first Reset Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 3.00 p.m. London time on the third business day prior to the Redemption Date of the Benchmark Gilt; and

(B) if the Redemption Date is on or within 5 business days following an Interest Payment Date, the Coupon payable on such Interest Payment Date, to the extent unpaid;

“Subsidiary” means a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985;

“Substitute Obligor” has the meaning given in Condition 10.4;
“Substituted Territory” has the meaning given in Condition 10.4(F);
“Talons” has the meaning given in the preamble to these Conditions;
“Tax Event” has the meaning given in Condition 5.2;
“Trust Deed” has the meaning given in the preamble to these Conditions;
“Trustee” has the meaning given in the preamble to these Conditions; and
“United Kingdom” means the United Kingdom of Great Britain and Northern Ireland.
SUMMARY OF THE PROVISIONS OF THE BONDS WHILE IN GLOBAL FORM

The Global Bonds contain provisions which apply to the Bonds that they represent, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions.

1. Relationship of Accountholders with Clearing Systems

Upon deposit of a Global Bond with a common depositary for Euroclear and Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Bonds equal to the principal amount thereof for which it has subscribed and paid.

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system approved by the Trustee ("Alternative Clearing System") as the holder of a particular principal amount of Bonds represented by a Global Bond (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or an Alternative Clearing System as to the principal amount of the Bonds standing to the account of any person shall be conclusive and binding for all purposes) must look solely to Euroclear, Clearstream, Luxembourg or the Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer or the Guarantor to the bearer of such Global Bonds, and in relation to all other rights arising under the Global Bonds, subject to and in accordance with the respective rules of Euroclear, Clearstream, Luxembourg or the Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer or the Guarantor in respect of payments due on the Bonds or under the Guarantee for so long as the Bonds are represented by such Global Bond and such obligations of the Issuer and the Guarantor will be discharged by payment to the bearer of such Global Bond in respect of each amount so paid.

2. Exchange

The Temporary Global Bond is exchangeable in whole or in part (free of charge to the holder) for interests in a Permanent Global Bond on or after its Exchange Date upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond.

The Permanent Global Bond is exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds on or after its Exchange Date if (i) the Permanent Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg or an Alternative Clearing System and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact so and, in any such case, no alternative clearing system satisfactory to the Trustee is available; or (ii) the Issuer or the Guarantor would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise), a change in the application or official interpretation of laws or regulations, or a change in the practice of Euroclear, Clearstream, Luxembourg or an Alternative Clearing System which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee. Thereupon (in the case of (i) above) the holder of the Permanent Global Bond, acting on the instructions of the Trustee or an Accountholder, may give notice to the Issuer, and (in the case of (ii) above), the Issuer may give notice to the Trustee, the Principal Paying Agent and the Bondholders of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

3. Delivery of Definitive Bonds

On or after the Exchange Date of the Permanent Global Bond its holder may or, in the case of paragraph 2(iii) above, must surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds in bearer form (having attached to them Coupons and a Talon), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 2 to the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant definitive Bonds.
4. **Exchange Date**

"Exchange Date" means: (i) in relation to the Temporary Global Bond, the day falling after the expiry of 40 days after its issue date; or (ii) in relation to the Permanent Global Bond, a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and, except in the case of an exchange pursuant to paragraph 2(ii) above, in the city or cities in which the relevant clearing system is located.

5. **Payments**

No payment falling due after the Exchange Date will be made on any Global Bond unless exchange for an interest in the Permanent Global Bond or, if applicable, for definitive Bonds is improperly withheld or refused. All payments on the Temporary Global Bond will only be made upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond unless such certification has already been made. All payments in respect of Bonds represented by a Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of that Global Bond to or to the order of the Principal Paying Agent or such other Paying Agent as has been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be prima facie evidence that such payment has been made in respect of such Bonds. Conditions 6.2 and 6.3 will apply to definitive Bonds only.

6. **Prescription**

Claims for payment in respect of Bonds represented by a Global Bond will become void unless it is presented for payment within a period of ten years (in the case of principal or Special Redemption Price) and five years (in the case of interest including any Deferred Interest) from the Relevant Date for payment.

7. **Meetings**

The holder of a Global Bond will have one vote in respect of each £1.00 in principal amount of Bonds for which the Global Bond may be exchanged.

8. **Purchase and Cancellation**

Cancellation of any Bond required by the relevant Conditions to be cancelled following its purchase will be effected by a reduction in the principal amount of the relevant Global Bond.

9. **Issuer's Option**

Any notice to the Bondholders (including a Redemption Notice) required for the Issuer to exercise any option provided for in Condition 5 may be given by the Issuer giving such notice to the relevant clearing system (in accordance with paragraph 11 below) within the time limits set out in and containing the information required by the Conditions.

10. **Trustee's Powers**

In considering the interests of Bondholders while a Global Bond is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by or on behalf of such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Bond and may consider such interests as if such accountholders were the holders of the Bonds represented by such Global Bond. Any such information may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular principal amount of Bonds is clearly identified together with the amount of such holding.

11. **Notices**

So long as any Bonds are represented by a Global Bond and such Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to the relevant Accountholders in substitution for publication as required by the relevant Conditions.
USE OF PROCEEDS

The net proceeds of the issue of the Bonds, which are estimated to amount to approximately £323.7 million, will be used to fund the general business and commercial activities of the BUPA Group. To facilitate this, some (and ultimately possibly all) of the amounts raised through the issue of the Bonds are intended to be lent by the Issuer to the Guarantor on a subordinated basis.
DESCRIPTION OF THE GROUP

1. **BUPA**

   The British United Provident Association Limited ("BUPA") was founded in 1947 following the merger of a number of provident associations. It is a private company limited by guarantee, not having a share capital. As such, it has no shareholders, consequently does not pay dividends and its activities are financed by its retained reserves and loan capital. BUPA is not a friendly society, a mutual society, nor an industrial and provident society. Policyholders do not have any interest in the assets of BUPA (although they do have rights against BUPA under their policy contracts).

   BUPA operates health and care funding and provision businesses through a number of subsidiaries. All of these are owned directly or indirectly by the Issuer, which is wholly-owned by BUPA and is its only direct subsidiary (aside from BUPA Nominees Limited, a nominee company holding one share in the Issuer). The Group's insurance activities in the UK are carried on through the Guarantor (which sells private medical insurance and also operates in Ireland) and BUPA Health Assurance Limited (which sells long term pure protection insurance, i.e. income protection and critical illness insurance, and some term assurance). This includes the Group's expatriate business, which is operated in the UK serving expatriates in some 180 countries. Through other subsidiaries of the Issuer, the Group operates private medical insurance businesses in Australia, Hong Kong, Saudi Arabia (currently 50% interest), Spain and Thailand. The Group's other principal activities include operating hospitals, care homes, health screening and occupational health businesses in the United Kingdom and Spain. The Group also includes subsidiaries which manage the Group's investment portfolios. As an insurance company, the Guarantor is regulated by the Financial Services and Markets Act 2000 and the Companies Act 1985, and is subject to regulation by the FSA.

2. **History of the Group**

   In April 1947 (the year before the National Health Service ("NHS") began operation), a number of provident associations amalgamated to form BUPA. BUPA was founded with the objects of preventing, relieving and curing sickness and ill-health of every kind and promoting health in any way. At that time the organisation operated solely in the field of private health insurance.

   In 1981, BUPA entered the hospital sector directly by opening a purpose-built hospital in Manchester. By the end of 1989 BUPA’s portfolio had grown to 27 hospitals. BUPA’s hospital network now comprises 34 acute hospitals in the United Kingdom and one diagnostic and treatment centre serving the NHS. The Group also manages one acute private hospital in the Republic of Ireland in which it has a 56% interest.

   BUPA has also developed primary health care businesses in the UK under the BUPA Wellness brand including health screening and occupational health services, operating through Wellness centres, BUPA hospitals and employers' premises.

   In 1989, BUPA acquired Sanitas S.A. de Seguros, now Spain's third largest private medical insurer by revenue. Sanitas also owns and operates 2 acute hospitals in Madrid, 17 day clinics across Spain and 20 care homes for the elderly.

   During 1996 and 1997 the Group made a series of acquisitions in the UK care home sector and established itself as a market leading care home owner operator. BUPA now owns or operates over 250 homes with over 16,000 residents.

   In 2000 the Guarantor was formed and the insurance business previously conducted by BUPA was transferred to this new company. The Guarantor is a wholly-owned subsidiary of the Issuer.

   The Group announced in June 2004 that it is selling 10 of its smaller hospitals.

3. **The Issuer**

   The Issuer is a public limited company with limited liability incorporated in England and Wales. All of the issued share capital is beneficially owned by the Issuer’s parent company and controlling shareholder, BUPA.
4. The Guarantor
The Guarantor was incorporated as a limited liability company in England and Wales on 27 March 2000 under the Companies Act 1985 (as amended) and is registered in England and Wales with the registration number 3956433. All of the issued share capital is owned by the Issuer.

5. Restructuring
In August 2004 the ownership of certain subsidiaries of BUPA was changed so that the Issuer is the only direct subsidiary of BUPA (aside from a nominee company holding one share in the Issuer) and substantially all of the BUPA Group's businesses are owned by the Issuer and its subsidiaries. The following diagrams illustrate the main change effected by the restructuring (the "Restructuring"), being the change in ownership of BUPA Investments Limited ("BUIL"):

Prior to Restructuring

```
  BUPA
    
  BUPA FINANCE PLC (Issuer)

  BUPA Investments Limited (BUIL)
```

Post Restructuring

```
  BUPA
    
  BUPA FINANCE PLC (Issuer)
    
  BUPA Investments Limited (BUIL)
```

The Restructuring is not reflected in the published audited accounts for the financial year ended 31 December 2003, but will be reflected in the accounts for the financial year ending 31 December 2004. However, all the transactions comprising the Restructuring were taken into account in preparing the unaudited pro forma financial information which appears in this Offering Circular.

The Restructuring included the following principal transactions:

(A) BUIL acquired 30% of the issued share capital of BUPA (Asia) Limited (a Hong Kong registered company and a member of the BUPA Group) from BUPA for consideration of £5.4m, representing 30% of the net asset value of BUPA Asia. No goodwill arose on the transaction. Following this transaction, BUPA's only substantial shareholding is in the Issuer.

(B) The Issuer acquired BUPA's 50,000 £1 ordinary shares in BUIL (BUIL's entire issued share capital) in consideration for the Issuer issuing 50,000 new ordinary shares of £1 each in itself to BUPA. BUIL had a net asset value of approximately £1 billion after making the dividend payment to BUPA referred to below. Merger relief was available on the resulting premium and merger accounting has been applied. No additional goodwill arose from the merger.
BUPA transferred to BUIL various loans owed to and from BUPA's other subsidiaries in consideration for a partial reduction in the amount of an existing loan owed by BUPA to BUIL (by an amount equal to the net value of the loan portfolio). The remaining loan balance owed from BUPA to BUIL was cleared by BUIL's payment of a dividend of £191.9m to BUPA in August 2004.

6. Simplified organisational structure of the Group

7. Management of the Issuer

The following are the members of the Board of Directors of the Issuer:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raymond King</td>
<td>Group Finance Director, BUPA</td>
</tr>
<tr>
<td>Julian Peter Davies</td>
<td>Corporate Finance Director, BUPA</td>
</tr>
<tr>
<td>Michael Ian Dugdale</td>
<td>Group Financial Controller, BUPA</td>
</tr>
<tr>
<td>Arthur David Walford</td>
<td>Company Secretary and General Counsel, BUPA</td>
</tr>
<tr>
<td></td>
<td>Company Secretary of the Issuer</td>
</tr>
</tbody>
</table>

The business address of each of the above is BUPA House, 15-19 Bloomsbury Way, London WC1A 2BA.
8. **Management of the Guarantor**

The following are the members of the Board of Directors of the Guarantor:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valerie Frances Gooding</td>
<td>Chief Executive, BUPA, Chairman of the Board of Directors of the Guarantor</td>
</tr>
<tr>
<td>Raymond King</td>
<td>Group Finance Director, BUPA</td>
</tr>
<tr>
<td>Geoffrey Allan Brown</td>
<td>Director and Chief Actuary, BUPA</td>
</tr>
<tr>
<td>Stephen David Flanagan</td>
<td>Commercial Director, UK Membership Division, BUPA</td>
</tr>
<tr>
<td>Dean Allan Holden</td>
<td>Managing Director, International Division, BUPA</td>
</tr>
<tr>
<td>Fergus Alexander Kee</td>
<td>Managing Director, UK Membership Division, BUPA</td>
</tr>
<tr>
<td>Nicolas Hornby Taylor</td>
<td>Non-executive Director of the Guarantor</td>
</tr>
<tr>
<td></td>
<td>Melmoth House, The Abbey Close, Sherborne, Dorset DT9 3LQ</td>
</tr>
<tr>
<td>Arthur David Walford</td>
<td>Company Secretary and General Counsel, BUPA</td>
</tr>
<tr>
<td>Robert Philippe Walther</td>
<td>Non-executive Director of the Guarantor and BUPA</td>
</tr>
<tr>
<td></td>
<td>Ashwells Barn, Chesham Lane, Chalfont St. Giles, Buckinghamshire, HP8 4AS</td>
</tr>
</tbody>
</table>

The business address of each of the above is, unless otherwise stated, BUPA House, 15-19 Bloomsbury Way, London WC1A 2BA.

9. **Business of the Group**

The principal activities of the Group are the operation of health insurance schemes and the provision of health care facilities including hospitals, care homes for the elderly, health screening and occupational health services. The Group is the only private health care organisation in the United Kingdom, which is both a private medical insurer and a provider of hospital services.

In the United Kingdom, the Group is the largest private medical expense insurer, the second largest independent acute hospital provider measured by revenue and is the largest owner-operator of care home beds measured by revenue. It has the largest international business of any British-based independent health care organization.

The Group operates a broad spread of health and care businesses and has a strong geographical base across the UK, Spain, Australasia and a presence in the Asia Pacific region, and employs over 40,000 people worldwide.

The Group has a small central head office function and managerially operates in the following five divisions: the Membership Division (the United Kingdom and Irish health insurance businesses), the International Division (the UK based expatriate and the Australian health insurance and other international businesses), Sanitas (Spanish health insurance business), the Care Services Division and the Hospitals Division.

10. **Membership Division**

The Membership Division is a division of the Guarantor and embraces all of the Group’s health insurance activities in the United Kingdom and Ireland. It provides a range of insurance schemes for the reimbursement of medical expenses.

(A) **UK Membership**

The Group has led the private health insurance field in the United Kingdom since its foundation and has been largely responsible for the development of the market. The latest publicly available
data from Laing & Buisson shows that for 2003 BUPA had a market share of 40.0 per cent, with its nearest competitor AXA PPP Healthcare having a market share of 22.5 per cent. BUPA currently insures approximately 3.5 million people in the UK.

The UK Membership Division sells medical expenses indemnity insurance policies in three market segments: private individuals, companies (with up to around 350 insured employees) and large corporations. The policies are typically renewable annually. Premiums for the individual and company sectors are set by reference to the general level of claims incurred in each sector. Premiums for major corporations are set in the light of each corporation's own claims record.

Policies are sold by the Group's own salaried sales advisers, by telesales staff, a self-employed direct sales force and through independent insurance brokers. These sales channels are supported by extensive TV and newspaper advertising and direct marketing activity.

The Division has agreements with the majority of hospitals in the UK covering the pricing and quality of treatment for its members. These agreements also cover NHS hospitals which have facilities for private patients. As the largest private health insurer in the United Kingdom BUPA is able to negotiate competitive rates. This helps to moderate insurance premium rises which are primarily driven by increasing medical costs and advances in medical technology. Agreements with the major hospital groups are for at least 12 months but more typically 3-5 years. Approximately 50% of UK customers are now on products which restrict cover to a core network of around 180 hospitals with which BUPA has negotiated advantageous longer term price and service agreements.

The Membership Division has a table setting out the maximum fees reimbursable under its protocols to surgeons, physicians and anaesthetists and other medical specialists weighted according to medical complexity, for different medical or surgical procedures.

The Division sells a wide range of health care policies. These range from schemes providing comprehensive reimbursement cover to corporate customers, through to less expensive policies which provide cover for heart and cancer conditions only to individual customers, or which are subject to a substantial excess. The latest individual products tailor price and cover to personal risk factors including occupation, address and medical history. Some large corporate schemes are now written on a "health trust" basis – BUPA provides an administration service and purchases health care and the underlying insurance risk remains with the corporate client.

The Membership Division also provides long term insurance schemes to corporate and individual customers through BUPA Health Assurance Limited. It offers group and individual life, income protection and critical illness cover.

(B) BUPA Ireland

BUPA Ireland is currently one of only two established providers of private medical insurance in Ireland, competing against the state owned competitor, the Voluntary Health Insurance Board ("VHI"). Operating since 1997, BUPA Ireland currently has approximately 20% of the market. During October 2004 a newly formed insurer known as Vivas announced its entry into the market. Generally in Ireland, for a prescribed level of cover the same premium must be charged regardless of age, sex or individual state of health. Late in 2003 the Irish parliament amended the law to permit the introduction of risk equalisation in the Irish medical insurance industry. Risk equalisation has the objective of ensuring that an insurer with a high risk profile of customers is compensated by an insurer with a lower risk profile. BUPA Ireland's customers are believed to have a lower profile of risk than those of the VHI and consequently BUPA Ireland may be required to make payments to the VHI. It is possible that risk equalisation may make BUPA's Irish business commercially unviable. The Irish Health Insurance Authority has now twice recommended that risk equalisation not be introduced at this stage, given the small likely consumer benefits and uncertain competitive consequences, however this will be reviewed every six months.

11. International Division

(A) International business

The Group's international insurance business is the largest private health insurer of expatriates in the world, covering nearly 265,000 people in over 180 countries. The Group provides cover for British and other expatriates, employees of international companies outside the UK and high net worth individuals. Products are distributed through a salaried sales force, telesales teams, the
internet, international intermediaries and alliances and through local advisers in over 30 countries. The Group was the first United Kingdom health insurer to make available a flexible structure of benefits to provide adequate cover for hospital treatment and specialist fees anywhere in the world. The international business offers direct settlement in local currency to its accredited providers, a 24-hour member helpline, a medical referral service and emergency medical evacuation.

(B) Australia
In 2002 BUPA acquired a 50% interest in a consortium to acquire the health insurance business of AXA Asia Pacific in Australia, subsequently acquiring a 100% direct interest in February 2003. With over 950,000 customers the Group has approximately 11% of the Australian market nationally, about 22% of the Victorian market and about 44% of the market in South Australia. The Australian Government's lifetime health cover regime provides a steadily increasing price incentive for customers to join a private health scheme from age 30. A tax rebate (currently 30%) is given on premiums.

There are some 42 private health insurers in Australia, mostly mutuals run on a “not for profit” basis which provides opportunities for consolidation in the market.

BUPA's Australian business operates under two brands: Mutual Community in South Australia and HBA in Victoria and the rest of Australia. BUPA Australia is a market leader for innovation and has the lowest management expense ratio of all Australian health funds.

(C) Hong Kong
The Group has offered health insurance to personal and corporate customers in Hong Kong since 1976. The business was incorporated in Hong Kong in 1976 and has a market share of approximately 8%. Currently, approximately 133,000 people are covered by the Group’s policies. The Group has entered into a number of key distribution agreements.

(D) Saudi Arabia
In 1998 BUPA commenced providing private health insurance cover in Saudi Arabia through a 50/50 joint venture company registered in Bahrain. There are some 7 million expatriate workers in the country and legislation has been introduced to make it compulsory for employers of expatriates in Saudi Arabia to provide medical cover for them. This makes this a potentially significant growth market for BUPA. BUPA has about a 15% share of the market and covers approximately 110,000 people. Under the new laws, BUPA and its joint venture partner have applied to the Saudi regulator to incorporate a new insurance company in Saudi Arabia to which the existing business will be transferred. The Saudi regulator has informed BUPA that the new company must be formed as a public company and undergo an IPO. For this and other regulatory reasons relating to foreign ownership BUPA’s eventual stake in the new company is likely to be less than 50%.

(E) Thailand
In 1996 BUPA acquired the health insurance business of Blue Cross Thailand. The business has developed organically since and is now the market leader in private medical insurance with approximately 160,000 people insured. BUPA has a market share of around 80% in the Thai private medical insurance market. Distribution is through direct sales, 5 branch offices and various agents and brokers.

12. Sanitas -- Spain
In 1989, the Group purchased Sanitas S.A. de Seguros ("Sanitas"), which has grown both through targeted acquisitions and organically to become Spain’s third largest health insurer and the largest insurer to the private sector. Sanitas provides medical insurance and dental cover to over one million individual and corporate customers as well as owning and operating two hospitals, and 11 day clinics. Sanitas' flagship hospital in Madrid treated over 162,000 people in 2003, most of whom were Sanitas members. Medical services are provided to members through a network of contracted hospitals as well as contracted GPs and specialists.

Sanitas' business originated in the Madrid area and around 55% of its customers are still in that area, but a combination of initiatives from regional sales teams and small targeted acquisitions have generated significant markets in Catalonia, Bilbao, Galicia, Valencia and Seville. There are also branches in the major population centres in Spain.
Construction work has begun on a new Madrid hospital to replace Sanitas' old city centre facility. The new hospital is expected to open around the end of 2005.

Trading as Sanitas Residencial, Sanitas also owns or manages 21 care homes with 2,388 beds.

13. Care Services Division

BUPA Care Homes provides nursing, residential and respite care to approximately 17,000 residents across the UK. Annual revenues of over £400m are split as to approximately 30% from privately paying customers and 70% from local authority-funded customers. BUPA Care Homes is the largest owner-operator of care homes in the UK and has a market share of approximately 3.8% of all care home beds in a highly fragmented market.

The care homes business has been built through a series of acquisitions since 1996 and now comprises 258 homes with over 22,000 employees. The existing business achieves high occupancy levels and continues to expand: by acquisition where appropriately priced opportunities exist; by partnership contracts with local authorities; and by the construction of new homes where there is sufficient demand.

BUPA Care Homes has improved its profitability significantly over the past two years principally through improved efficiency and as a result of local authorities recognising the need to pay an increased price for care.

14. Hospitals Division

(A) Hospitals

The Hospitals Division is the United Kingdom's second largest provider of private acute hospital services in the United Kingdom in terms of revenue. The Division owns and operates a network of 34 private acute hospitals with 1,864 registered beds.

The hospitals' services (excluding nursing and post-operative care services) are delivered through self employed consultants, most of whom are NHS consultants. They carry responsibility for the admission and treatment of their patients and are required to have full professional indemnity insurance cover.

The services and facilities offered include hospital accommodation for patients; diagnostic services (e.g. radiology, pathology, magnetic resonance imaging (MRI) and computed tomography (CT scanning); operating theatres; nursing care and medication.

Mainly elective surgery is performed i.e. the patient's condition is not life-threatening and consequently the patient has choices regarding the timing and location of the operation. In 2003 approximately 200,000 in-patient and day case episodes of care were completed, together with around a further 600,000 out-patient episodes of care. Approximately 14,000 of these people were treated under the concordat agreement with the NHS. Around a further 9,000 people were treated at BUPA's privately operated, NHS-funded diagnosis and treatment centre at Redhill in Surrey.

(B) BUPA Wellness

Under the BUPA Wellness brand, the Division provides health assessment and screening services from a network of 43 wellness centres across the UK, representing the largest provider of these services in Europe. These services are also provided for corporate customers at their own premises. BUPA Wellness also provides occupational health services to corporate customers. In 2003, more than 100,000 people used these services.

(C) Blackrock and Teddies Nurseries

The Division has a 56 per cent. interest in and manages the Blackrock Clinic, a premier Dublin hospital.

Through Teddies Nurseries, the Division currently operates 44 nurseries in England, looking after around 2,800 children aged between 3 months and school age.

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### CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the consolidated capitalisation and indebtedness of the Issuer at 31 December 2003 on the bases specified.

<table>
<thead>
<tr>
<th>Shareholders' Funds</th>
<th>From unaudited pro forma financial information as at 31 December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Called up share capital</td>
<td>200.0</td>
</tr>
<tr>
<td>Retained profits and reserves</td>
<td>140.1</td>
</tr>
<tr>
<td>Total shareholders' funds</td>
<td>340.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indebtedness</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated bonds 2018</td>
<td>99.0</td>
</tr>
<tr>
<td>Loan notes</td>
<td>6.9</td>
</tr>
<tr>
<td>Bank loans and overdrafts</td>
<td>93.9</td>
</tr>
<tr>
<td>Secured loans</td>
<td>615.1</td>
</tr>
<tr>
<td>Debenture stock</td>
<td>66.6</td>
</tr>
<tr>
<td>Obligations under finance leases</td>
<td>13.5</td>
</tr>
<tr>
<td>Loans from other BUPA Group companies</td>
<td>1,292.7</td>
</tr>
<tr>
<td>Total indebtedness</td>
<td>2,187.7</td>
</tr>
</tbody>
</table>

Notes:

1. Shareholders' Funds

2. Indebtedness

3. Subordinated bonds

4. Loan notes

5. Bank loans and overdrafts

6. Secured loans

7. Debenture stock

8. Obligations under finance leases

9. Loans from other BUPA Group companies

As at 31 December 2003, the authorised share capital of the Issuer was £200 million divided into 200 million ordinary shares of £1 each, of which 200 million had been issued at 31 December 2003 and are fully paid up. As part of the August 2004 Restructuring, the authorised share capital was increased to £700 million divided into 700 million ordinary shares of £1 each, and the unaudited pro forma numbers take into account the issue of a further 50,000 ordinary shares of £1 each in the August 2004 Restructuring.

3. Indebtedness excludes intra-Group loans. Foreign currency indebtedness has been translated at closing rates on 31 December 2003. There are no borrowings guaranteed by companies outside the BUPA Group.

4. The subordinated bonds are unsecured and are guaranteed by BUPA.

5. All of the loan notes are unsecured and are guaranteed by BUPA but are unsecured.

6. Of the total amount of secured loans, £437.3 million (or £440 million on the unaudited pro forma numbers), £48.3 million is secured by fixed and floating charges over certain assets of the Group. The balance represents a bank overdraft which is unsecured but subject to cross guarantees by various BUPA Group companies (the unaudited pro forma numbers include £429.8 million of bank loans which are guaranteed by BUPA).

7. Of the total amount of secured loans, £437.3 million (or £440 million on the unaudited pro forma numbers), relates to amounts borrowed from UK Hospitals No. 1 SA. This loan is secured by first ranking fixed and floating security over all the property, undertaking and assets of BUPA Hospitals (Holdings) Limited and its subsidiaries. In addition, BUPA Hospitals (Holdings) Limited and its subsidiaries have guaranteed this debt. The balance of £177.8 (or £183.5 million on the unaudited pro forma numbers), million represents secured loans due to UK Care No. 1 Limited, which are being repaid by instalments until 1 October 2029.

8. The obligations under the finance leases are unsecured and are not guaranteed. In addition, the Group occupies 13 hospitals subject to finance lease arrangements which are guaranteed by BUPA. The balance due under these finance lease arrangements (£130.7 million) has not been shown in the table above, as it has been offset by ring-fenced deposits of £141.4 million. The ring fenced deposits can only be withdrawn from periodically once payments have been made to the finance lessors. BUPA Hospitals (Holdings) Limited has granted security over the cash deposits to the lessors.

9. None of the loans from other BUPA Group companies are guaranteed or secured. This figure excludes trading balances with other BUPA Group companies of less than one year.

10. Except as disclosed above, the Group had, as at 31 December 2003, no borrowings, indebtedness or material guarantees.

11. Except as disclosed below, the Group had, as at 31 December 2003, no material contingent liabilities:

The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, from which it is anticipated that the likelihood of any material unprovided liabilities arising is remote. Group companies have given guarantees, as part of the BUPA Group banking arrangements, in respect of the overdraft of certain other BUPA Group undertakings.

12. Other than any changes effected by the Restructuring (as described in "Description of the Group - 5 Restructuring"), there have been no material changes in the consolidated capitalisation or indebtedness (including contingent liabilities and guarantees) of the Group since 31 December 2003.
CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the unconsolidated capitalisation and indebtedness of the Guarantor at 31 December 2003.

<table>
<thead>
<tr>
<th>Shareholders' Funds(^1)</th>
<th>31 December 2003 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Called up share capital</td>
<td>310.0</td>
</tr>
<tr>
<td>Retained profits and reserves</td>
<td>146.0</td>
</tr>
<tr>
<td><strong>Total shareholders' funds</strong></td>
<td><strong>456.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indebtedness(^2)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated loan(^3)</td>
<td>100.0</td>
</tr>
<tr>
<td>Bank overdrafts(^4)</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Total indebtedness</strong></td>
<td><strong>105.4</strong></td>
</tr>
</tbody>
</table>

Notes:

1. The authorised share capital of the Guarantor is 500 million divided into 500 million ordinary shares of £1 each, of which 310 million had been issued at 31 December 2003 and are fully paid up.

2. Indebtedness excludes intra-Group loans. Foreign currency indebtedness has been translated at closing rates on 31 December 2003.

3. The subordinated loan was provided by the Issuer. It is not guaranteed and is unsecured.

4. The bank overdrafts are not guaranteed and are unsecured.

5. Except as disclosed above, the Guarantor had, as at 31 December 2003, no borrowings, indebtedness or material guarantees.

6. Except as disclosed below, the Guarantor had, as at 31 December 2003, no material contingent liabilities:
   - The Guarantor has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, from which it is anticipated that the likelihood of any material unprovided liabilities arising is remote.
   - The Guarantor is jointly and severally liable for value added tax due by certain other companies in the BUPA Group.

7. There have been no material changes in the consolidated capitalisation or indebtedness (including contingent liabilities and guarantees) of the Guarantor since 31 December 2003.
FINANCIAL INFORMATION OF THE ISSUER AND THE GUARANTOR

The following information is provided:

(i) unaudited consolidated pro forma profit and loss account and balance sheet of the Issuer and its subsidiaries for the year ended 31 December 2003. This information has been prepared, following the Restructuring, from the unadjusted financial information contained in the annual report and accounts of the Issuer and of BUPA Investments Limited and its subsidiaries, and in a manner consistent with both the format and accounting policies adopted by the Issuer in its financial statements; and

(ii) the auditors' report and extracts from the financial statements of the Guarantor for the year ended 31 December 2003. This information has been extracted without material adjustment from the audited (unconsolidated) accounts for the year ended 31 December 2003.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR THE ISSUER

An unaudited consolidated pro forma profit and loss account and an unaudited consolidated net asset statement of the Group (consisting of the Issuer and its subsidiaries) for the year ended 31 December 2003 are set out below.

Basis of preparation

The Group in its current legal structure was formed following a corporate restructuring completed in August 2004 (the principal transactions are described in “Description of the Group – 5 Restructuring”). The pro forma financial information set out below has been prepared for illustrative purposes to present historical financial information for the Group as if the companies within the Group had been in a group relationship for the financial year ended 31 December 2003, that is, as if the August 2004 Restructuring had already occurred prior to that time.

The pro forma financial information, which has not been audited, has been prepared by consolidating:

(a) the audited consolidated financial statements of the Group for the year ended 31 December 2003; and

(b) the unaudited consolidated financial statements of BUIL and its subsidiaries (which have been consolidated from the audited financial statements of BUIL and each of its subsidiaries) for the year ended 31 December 2003,

and making pro forma adjustments to reflect certain transactions which occurred as part of the Restructuring, namely:

- BUIL’s acquisition of 30% of the issued share capital in BUPA (Asia) Limited from BUPA for £5.4m;
- the Issuer’s acquisition of BUPA’s 50,000 shares in BUIL in consideration for the Issuer issuing 50,000 new shares in itself to BUPA;
- BUPA transferring to BUIL various loans owed to and from BUPA’s other subsidiaries in consideration for a partial reduction in the amount of any existing loan owed by BUPA to BUIL; and
- the clearing of the remaining loan balance owed from BUPA to BUIL by BUIL’s declaration of a dividend of £191.9m to BUPA.

The pro forma financial information has been prepared in accordance with UK GAAP and on the basis of accounting standards in effect at 31 December 2003, but has not been audited. In preparing the pro forma financial information the merger method of accounting has been applied. The pro forma financial information has also been prepared using accounting policies which are consistent with those of the BUPA Group and which will continue to be followed by the Group.
## BUPA FINANCE PLC

### Pro forma consolidated profit and loss account for the year ended 31 December 2003

#### Technical account - general business

**Earned premiums**

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums written</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>2,278.5</td>
<td>35.6</td>
<td>-</td>
<td>2,314.1</td>
</tr>
<tr>
<td>Change in provision for unearned premiums</td>
<td>(49.3)</td>
<td>(2.2)</td>
<td>-</td>
<td>(51.5)</td>
</tr>
<tr>
<td></td>
<td>2,229.2</td>
<td>33.4</td>
<td>-</td>
<td>2,262.6</td>
</tr>
<tr>
<td><strong>Claims incurred</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims paid</td>
<td>(1,694.1)</td>
<td>(23.4)</td>
<td>-</td>
<td>(1,717.5)</td>
</tr>
<tr>
<td>Change in provision for claims</td>
<td>(32.2)</td>
<td>(0.3)</td>
<td>-</td>
<td>(32.5)</td>
</tr>
<tr>
<td></td>
<td>(1,726.3)</td>
<td>(23.7)</td>
<td>-</td>
<td>(1,750.0)</td>
</tr>
<tr>
<td><strong>Net operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(357.6)</td>
<td>(9.1)</td>
<td>-</td>
<td>(366.7)</td>
</tr>
<tr>
<td><strong>Other technical charges, net of reinsurance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>(3.9)</td>
<td>-</td>
<td>(3.9)</td>
</tr>
<tr>
<td><strong>Balance on the technical account - general business - continuing obligations</strong></td>
<td></td>
<td>145.3</td>
<td>(3.3)</td>
<td>142.0</td>
</tr>
</tbody>
</table>

#### Non-technical account

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance on the technical account - general business</td>
<td>145.3</td>
<td>(3.3)</td>
<td>-</td>
<td>142.0</td>
</tr>
</tbody>
</table>

#### Health and care provision turnover

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>1,036.7</td>
<td>50.4</td>
<td>-</td>
<td>1,087.1</td>
</tr>
<tr>
<td>Expenses</td>
<td>(949.1)</td>
<td>(46.3)</td>
<td>-</td>
<td>(995.4)</td>
</tr>
<tr>
<td></td>
<td>87.6</td>
<td>4.1</td>
<td>-</td>
<td>91.7</td>
</tr>
</tbody>
</table>

#### Operating profit before goodwill amortisation and investment and financing

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>232.9</td>
<td>0.8</td>
<td>-</td>
<td>233.7</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>(43.0)</td>
<td>(4.2)</td>
<td>22.7</td>
<td>(24.5)</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>(16.9)</td>
<td>-</td>
<td>-</td>
<td>(16.9)</td>
</tr>
</tbody>
</table>

#### Operating profit before investment and financing

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>173.0</td>
<td>(3.4)</td>
<td>22.7</td>
<td>192.3</td>
</tr>
<tr>
<td>Investment income</td>
<td>92.8</td>
<td>114.6</td>
<td>(155.2)</td>
<td>52.2</td>
</tr>
<tr>
<td>Unrealised (losses)/gains on investments</td>
<td>(11.3)</td>
<td>0.1</td>
<td>0.5</td>
<td>(10.7)</td>
</tr>
<tr>
<td>Investment expenses and charges</td>
<td>(185.1)</td>
<td>(60.2)</td>
<td>157.7</td>
<td>(87.6)</td>
</tr>
</tbody>
</table>

#### Operating profit before other charges

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>69.4</td>
<td>51.1</td>
<td>25.7</td>
<td>146.2</td>
</tr>
</tbody>
</table>

#### Operating profit on ordinary activities before taxation

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>Adjustments for the consolidated (unaudited) BUPA Investments Limited group</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60.2</td>
<td>50.1</td>
<td>25.7</td>
<td>136.0</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>(60.1)</td>
<td>(5.4)</td>
<td>-</td>
<td>(65.5)</td>
</tr>
<tr>
<td>Profit on ordinary activities after taxation</td>
<td>0.1</td>
<td>44.7</td>
<td>25.7</td>
<td>70.5</td>
</tr>
<tr>
<td>Minority interest - equity</td>
<td>1.7</td>
<td>(1.4)</td>
<td>-</td>
<td>0.3</td>
</tr>
<tr>
<td>Profit for the financial year</td>
<td>1.8</td>
<td>43.3</td>
<td>25.7</td>
<td>70.8</td>
</tr>
<tr>
<td>Dividends</td>
<td>(4.3)</td>
<td>4.3</td>
<td>(191.9)</td>
<td>(191.9)</td>
</tr>
<tr>
<td>(Loss)/profit for the financial year</td>
<td>(2.5)</td>
<td>47.6</td>
<td>(166.2)</td>
<td>(121.1)</td>
</tr>
</tbody>
</table>
### Pro forma consolidated balance sheet

**as at 31 December 2003**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>BUPA Finance PLC (audited)</th>
<th>BUPA Investments Limited</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible fixed assets</strong></td>
<td>375.0</td>
<td>17.8</td>
<td>(144.5)</td>
<td>248.3</td>
</tr>
<tr>
<td>Hospitals, care homes and equipment</td>
<td>1,470.6</td>
<td>50.4</td>
<td>2.4</td>
<td>1,523.4</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>64.9</td>
<td>3.1</td>
<td>–</td>
<td>68.0</td>
</tr>
<tr>
<td>Land and buildings - own use</td>
<td>1,331.8</td>
<td>450.5</td>
<td>(360.4)</td>
<td>1,421.9</td>
</tr>
<tr>
<td>Financial investments</td>
<td>1,396.7</td>
<td>453.6</td>
<td>(360.4)</td>
<td>1,489.9</td>
</tr>
<tr>
<td><strong>Debtors</strong></td>
<td>1,470.6</td>
<td>50.4</td>
<td>2.4</td>
<td>1,523.4</td>
</tr>
<tr>
<td>Debtors arising out of direct insurance operations</td>
<td>447.5</td>
<td>6.0</td>
<td>–</td>
<td>453.5</td>
</tr>
<tr>
<td>Other debtors : amounts falling due within 1 year</td>
<td>1,351.9</td>
<td>(2,372.1)</td>
<td>194.5</td>
<td></td>
</tr>
<tr>
<td>Other debtors : amounts falling due after more than 1 year</td>
<td>1,351.9</td>
<td>(2,372.1)</td>
<td>194.5</td>
<td></td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>2,491.8</td>
<td>3,245.7</td>
<td>(5,075.5)</td>
<td>662.0</td>
</tr>
<tr>
<td>Other tangible assets</td>
<td>64.9</td>
<td>3.1</td>
<td>–</td>
<td>68.0</td>
</tr>
<tr>
<td>Stocks</td>
<td>16.7</td>
<td>0.8</td>
<td>(0.1)</td>
<td>17.4</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>100.9</td>
<td>10.9</td>
<td>(8.4)</td>
<td>103.4</td>
</tr>
<tr>
<td></td>
<td>172.7</td>
<td>15.0</td>
<td>(8.5)</td>
<td>179.2</td>
</tr>
<tr>
<td><strong>Prepayments and accrued income</strong></td>
<td>1,331.8</td>
<td>450.5</td>
<td>(360.4)</td>
<td>1,421.9</td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>26.4</td>
<td>14.6</td>
<td>(0.1)</td>
<td>40.9</td>
</tr>
<tr>
<td>Other prepayments and accrued income</td>
<td>21.7</td>
<td>2.1</td>
<td>(4.2)</td>
<td>19.6</td>
</tr>
<tr>
<td></td>
<td>48.1</td>
<td>16.7</td>
<td>(4.3)</td>
<td>60.5</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5,954.9</td>
<td>3,799.2</td>
<td>(5,590.8)</td>
<td>4,163.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>BUPA Finance PLC (audited)</th>
<th>BUPA Investments Limited</th>
<th>Consolidation and other pro forma adjustments</th>
<th>Pro forma Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital and reserves</strong></td>
<td>200.0</td>
<td>0.1</td>
<td>–</td>
<td>200.1</td>
</tr>
<tr>
<td>Called-up share capital</td>
<td>141.2</td>
<td>6.0</td>
<td>371.9</td>
<td>519.1</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>(1.1)</td>
<td>1,217.9</td>
<td>(708.3)</td>
<td>508.5</td>
</tr>
<tr>
<td><strong>Equity shareholders' funds</strong></td>
<td>340.1</td>
<td>1,224.0</td>
<td>(336.4)</td>
<td>1,227.7</td>
</tr>
<tr>
<td>Non-equity preference shares</td>
<td>365.1</td>
<td>-</td>
<td>(365.1)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Shareholders' funds</strong></td>
<td>705.2</td>
<td>1,224.0</td>
<td>(701.5)</td>
<td>1,227.7</td>
</tr>
<tr>
<td>Minority interest - equity</td>
<td>1.7</td>
<td>15.5</td>
<td>(5.4)</td>
<td>11.8</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>99.0</td>
<td>-</td>
<td>–</td>
<td>99.0</td>
</tr>
<tr>
<td><strong>Technical provisions</strong></td>
<td>724.0</td>
<td>10.9</td>
<td>–</td>
<td>734.9</td>
</tr>
<tr>
<td>Provision for unearned premiums</td>
<td>343.4</td>
<td>38.1</td>
<td>(0.1)</td>
<td>381.4</td>
</tr>
<tr>
<td>Claims outstanding</td>
<td>1,067.4</td>
<td>49.0</td>
<td>(0.1)</td>
<td>1,116.3</td>
</tr>
<tr>
<td><strong>Provisions for other risks and charges</strong></td>
<td>88.0</td>
<td>2.6</td>
<td>1.4</td>
<td>92.0</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td>688.6</td>
<td>2.7</td>
<td>5.7</td>
<td>697.0</td>
</tr>
<tr>
<td>Secured, debenture and other loans</td>
<td>93.9</td>
<td>405.4</td>
<td>(8.4)</td>
<td>490.9</td>
</tr>
<tr>
<td>Amounts owed to credit institutions</td>
<td>13.5</td>
<td>1.0</td>
<td>(10.0)</td>
<td>4.5</td>
</tr>
<tr>
<td>Obligations under finance leases</td>
<td>3,078.6</td>
<td>2,095.1</td>
<td>(4,872.5)</td>
<td>301.2</td>
</tr>
<tr>
<td>Other creditors including taxation and social security</td>
<td>3,874.6</td>
<td>2,504.2</td>
<td>(4,885.2)</td>
<td>1,493.6</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>119.0</td>
<td>3.9</td>
<td>–</td>
<td>122.9</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>5,954.9</td>
<td>3,799.2</td>
<td>(5,590.8)</td>
<td>4,163.3</td>
</tr>
</tbody>
</table>
AUDITED FINANCIAL INFORMATION FOR THE GUARANTOR

BUPA INSURANCE LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BUPA INSURANCE LIMITED

We have audited the financial statements on pages 4 to 19.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

11 March 2004
## PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2003

<table>
<thead>
<tr>
<th>Technical account – General business</th>
<th>Note</th>
<th>2003 (£'000)</th>
<th>2002 (£'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earned premiums</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross premiums written</td>
<td></td>
<td>1,490,725</td>
<td>1,357,360</td>
</tr>
<tr>
<td>Change in the gross provision for</td>
<td></td>
<td>(53,592)</td>
<td>(48,014)</td>
</tr>
<tr>
<td>unearned premiums</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Earned premiums</strong></td>
<td></td>
<td>1,437,133</td>
<td>1,309,346</td>
</tr>
<tr>
<td><strong>Claims incurred</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims paid, gross amount</td>
<td></td>
<td>(1,086,175)</td>
<td>(1,017,713)</td>
</tr>
<tr>
<td>Change in the provision for claims,</td>
<td></td>
<td>(23,781)</td>
<td>1,919</td>
</tr>
<tr>
<td>gross amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Claims incurred</strong></td>
<td></td>
<td>(1,109,956)</td>
<td>(1,015,794)</td>
</tr>
<tr>
<td>Net operating expenses</td>
<td>5</td>
<td>(248,415)</td>
<td>(229,035)</td>
</tr>
<tr>
<td><strong>Balance on the technical account for</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>general business</td>
<td></td>
<td>78,762</td>
<td>64,517</td>
</tr>
<tr>
<td><strong>Non-technical account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance on the general business technical account</td>
<td></td>
<td>78,762</td>
<td>64,517</td>
</tr>
<tr>
<td>Investment income</td>
<td>7</td>
<td>71,804</td>
<td>46,015</td>
</tr>
<tr>
<td>Unrealised losses on investments</td>
<td></td>
<td>(6,945)</td>
<td>(12,089)</td>
</tr>
<tr>
<td>Investment expenses and charges</td>
<td>8</td>
<td>(39,471)</td>
<td>(26,267)</td>
</tr>
<tr>
<td><strong>Operating profit on ordinary activities before taxation</strong></td>
<td>9</td>
<td>104,150</td>
<td>72,176</td>
</tr>
<tr>
<td><strong>Tax on profit on ordinary activities</strong></td>
<td>10</td>
<td>(42,014)</td>
<td>(20,970)</td>
</tr>
<tr>
<td><strong>Retained profit for the financial year</strong></td>
<td></td>
<td>62,136</td>
<td>51,206</td>
</tr>
</tbody>
</table>

All profits and losses relate to continuing operations.

There were no material differences between the reported profit and losses and the historical profit and losses on ordinary activities before and after taxation.

The accounting policies and notes on pages 7 to 19 form part of these financial statements.
BALANCE SHEET
as at 31 December 2003

ASSETS

Investments
Land and buildings 11 34,965 42,472
Other financial investments 12 996,816 847,772

Debtors
Debtors arising out of direct insurance
operations 13 418,145 395,264
Deferred Taxation 24 3,166 4,785
Other debtors 14 28,168 35,896

Other assets
Tangible assets 15 2,292 2,969
Cash at bank and in hand 43,601 11,451

Prepayments and accrued income
Deferred acquisition costs 19 25,697 21,007
Other prepayments and accrued income 23 14

Total assets 25,720 21,021

2003 2002
£'000

Note

11 34,965 42,472
12 996,816 847,772
13 418,145 395,264
24 3,166 4,785
14 28,168 35,896
15 2,292 2,969
43,601 11,451
19 25,697 21,007
23 14

Total assets 1,552,873 1,361,630

LIABILITIES

Capital and reserves
Called up share capital 16 310,000 310,000
Profit and loss account 17 146,023 82,952

Total shareholders' funds attributable to
equity interests 456,023 392,952

Subordinated liabilities 18 100,000 100,000

Technical provisions
Provision for unearned premiums 19 663,729 608,683
Claims outstanding 19 210,380 184,904

Provisions for other risks and charges 20 874,109 793,587

Creditors
Amounts owed to credit institutions 21 5,413 161
Other creditors including taxation and
social security 22 94,784 56,488
Accruals and deferred income 23 11,423 8,133

111,620 64,782

Total liabilities 1,552,873 1,361,630

Approved by the Board of Directors on 11 March 2004 and signed on its behalf by

R King
Director

The accounting policies and notes on pages 7 to 19 form part of these financial statements.
### RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2003

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the financial year</td>
<td>62,136</td>
<td>51,206</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>935</td>
<td>(167)</td>
</tr>
<tr>
<td>Net addition to shareholders' funds</td>
<td>63,071</td>
<td>51,039</td>
</tr>
<tr>
<td>Opening shareholders' funds</td>
<td>392,952</td>
<td>341,913</td>
</tr>
<tr>
<td>Closing shareholders' funds</td>
<td>456,023</td>
<td>392,952</td>
</tr>
</tbody>
</table>

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2003

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the financial year</td>
<td>62,136</td>
<td>51,206</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>935</td>
<td>(167)</td>
</tr>
<tr>
<td>Total recognised gains relating to the year</td>
<td>63,071</td>
<td>51,039</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2003

1. ACCOUNTING POLICIES
   
   (a) Basis of preparation
   
   The financial statements have been prepared in accordance with the provisions of Section 255 of, and
   Schedule 9A to, the Companies Act 1985.

   The financial statements have also been prepared in accordance with applicable accounting standards
   and under the historical cost convention, modified to include the revaluation of investments, including
   land and buildings, and comply with the November 2003 Statement of Recommended Practice issued by
   the Association of British Insurers. The adoption of the 2003 SORP by the Company has not resulted in
   any changes to accounting policies.

   (b) Related party transactions
   
   As the Company is a wholly owned subsidiary undertaking of The British United Provident Association
   Limited (BUPA), it has taken advantage of the exemption contained in Financial Reporting Standard
   No 8 "Related Party Disclosures" (FRS8) and has therefore not disclosed separately transactions or
   balances with entities which form part of the BUPA Group.

   (c) Cashflow statement
   
   The Company is exempt from the requirement of Financial Reporting Standard No 1 (FRS1) (Revised
   1996) to prepare a cash flow statement as it is a wholly-owned subsidiary undertaking of BUPA, and its
   cash flows are included within the consolidated cash flow statement of that company.

   (d) Basis of accounting for underwriting activities
   
   Underwriting activities are accounted for on an annual basis.

   (e) Premiums
   
   Premiums written relate to business commencing during the year, together with any difference between
   booked premiums for prior years and those previously accrued, and include estimates of premiums due
   but not yet receivable or notified to the company, less an allowance for cancellations.

   Premiums earned represent the proportion of premiums relating to cover provided for the year. The
   proportion of premiums written in the year relating to periods of risk beyond the end of the year are
   carried forward as unearned premiums, calculated on a time apportionment basis. The resulting
   provision is not materially different from one based on the pattern of incidence of risk.

   Premiums are shown gross of commissions and after deduction of any taxes and duties.

   (f) Claims
   
   Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for
   outstanding claims, including claims incurred but not reported and related expenses, together with any
   other adjustments to claims from previous years.

   Claims outstanding comprise provisions for the estimated cost of claims incurred up to but not paid at the
   balance sheet date whether reported or not, together with related claims handling expenses.

   Whilst the directors consider that the gross provisions for claims are fairly stated on the basis of the
   information currently available to them, the ultimate liability will vary as a result of subsequent
   information and events and may result in significant adjustments to the amounts provided. Adjustments
   to the amounts of claims provisions established in prior years are reflected in the financial statements for
   the period in which the adjustments are made, and disclosed separately if material. Statistical methods
   and market knowledge are used to derive the appropriate level of provisions, and the estimates made are
   reviewed regularly.

   (g) Estimation techniques
   
   The preparation of the accounts, as permitted by generally accepted accounting principles, requires
   management to make estimates and assumptions that affect the reported amounts of assets and liabilities
   and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of
   revenues and expenses during the reporting period. Actual results could differ from those estimates and
   in particular in respect of insurance provisions.

   Significant estimation techniques are used in the calculation of claims and unexpired risk provisions in
   respect of insurance liabilities.

   Outstanding claims provisions for private medical insurance constitute the element of provisions which
   are subject to estimation techniques. These provisions comprise of two items:

   Claims reported but not paid ("reporteds").

   Claims incurred but not reported (IBNR).
"Reported" are computed from direct data extraction from claims administration systems. For IBNR the method of computation is based upon the development of previously settled claims and the extrapolation of payments to date for each prior month. The extrapolation methods used are recognised methods described in the Institute and Faculty of Actuaries Claims Reserving Manual (1997). Typically, large homogenous sections of insurance business (eg corporate business in a specific region) are analysed by more than one single method; such as chain ladder, link ratio, Bornhuetter-Ferguson and paid loss ratio methods. Because of the short-tail nature of the liabilities, the methods used analyse claims settlement patterns by months, not by years. Technical provisions are valued at a point estimate in a range of possible outcomes.

(h) Unexpired risk reserves
For a small minority of private medical insurance policies, where future claims may exceed future earned premiums, an estimate of the deficiency is recorded as unexpired risk provision. In instances where there is large variability in the size of the eventual deficiency, prudent assumptions are made so that the provision would be sufficient in reasonably foreseeable adverse circumstances.

(i) Acquisition costs
Acquisition costs represent commission payable and other related expenses of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent period are deferred and charged to accounting periods in which the related premiums are earned.

(j) Investment income
Dividends on equity investments are included in the non-technical account on a cash basis which is not materially different from an ex-dividend basis; other investment income is recognised on an accruals basis.

Realised gains and losses on the disposal of land and buildings and other investments are taken to the non-technical account. Realised gains and losses on the disposal of own use land and buildings and financial investments are calculated as the difference between net proceeds and the latest carrying value.

(k) Unrealised investment gains and losses
Unrealised gains and losses on land and buildings and other financial investments are included in the non-technical account. Such gains and losses are calculated as the difference between the valuation of those investments at the balance sheet date and their valuation at the previous balance sheet date or their purchase price if purchased during the year. Unrealised gains and losses also include an adjustment for previously recognised gains and losses on investments disposed of during the year.

(l) Investments
Land and buildings occupied by the Company for its own use are stated at current value, less accumulated depreciation of buildings. Valuations are carried out by independent professionally qualified valuers every three years. In the intervening years, these valuations are reviewed by the Directors on the basis of independent professional advice, and any decreases in values accounted for as value adjustments.

Other financial investments where listed are stated at market value. Those investments which have been sold after the balance sheet date, or are to be sold in the short term, are shown at net realisable value.

(m) Depreciation
No depreciation is provided on freehold land. All other tangible assets are depreciated so as to write off the cost or valuation by equal instalments over their estimated useful lives, as follows:

- Freehold property – 50 years
- Leasehold property – over the period of the lease
- Equipment – 10 years

(n) Taxation including deferred taxation
The charge for taxation is based on the result for the year and takes into account deferred tax. Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more, tax with the following exceptions: Provision is made for tax on gains arising from the revaluation of property to its fixed value, the fair value adjustment of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned and without it being possible to claim rollover relief. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on current tax rates and laws.

Trading losses surrendered by other Group subsidiary undertakings are made on a full payment basis.

(o) Foreign currencies
Transactions denominated in foreign currencies are translated into sterling using the prevailing exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

2. Ultimate holding company
The Company is a direct subsidiary undertaking of BUPA Finance PLC, which is registered in England and Wales. A copy of BUPA Finance PLC’s financial statements is available to the public from The Registrar of Companies, Cardiff, CF4 3UZ.

The ultimate holding company is The British United Provident Association Limited (BUPA), which is registered in England and Wales and in whose accounts these financial statements are consolidated. A copy of BUPA’s consolidated financial statements is available to the public from The Registrar of Companies, Cardiff, CF4 3UZ.

3. Analysis of underwriting results
(a) Analysis by class

<table>
<thead>
<tr>
<th></th>
<th>Gross premiums written</th>
<th>Gross premiums earned</th>
<th>Gross claims incurred</th>
<th>Gross operating expenses</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>248,415</td>
</tr>
<tr>
<td>Direct insurance: accident and health</td>
<td>1,490,725</td>
<td>1,437,133</td>
<td>1,109,956</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>248,415</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>229,035</td>
</tr>
<tr>
<td>Direct insurance: accident and health</td>
<td>1,357,360</td>
<td>1,309,346</td>
<td>1,015,990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinsurance acceptances</td>
<td>-</td>
<td>-</td>
<td>(196)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>229,035</td>
</tr>
</tbody>
</table>

(b) Analysis of gross direct written premiums
In the opinion of the Directors, the disclosure of the geographical segmental analysis would be prejudicial to the commercial interests of the Company. On this basis, no disclosure has been made.

4. Prior year’s claims provisions

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overprovisions for claims at the beginning of the year compared with payments and provisions at the end of the year in respect of the prior year’s claims</td>
<td>38,876</td>
<td>37,653</td>
<td></td>
</tr>
</tbody>
</table>

5. Net operating expenses

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition costs</td>
<td>52,166</td>
<td>49,614</td>
<td></td>
</tr>
<tr>
<td>Increase in deferred acquisition costs</td>
<td>(4,561)</td>
<td>(1,768)</td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>47,605</td>
<td>47,846</td>
<td></td>
</tr>
<tr>
<td>200,810</td>
<td>181,189</td>
<td></td>
<td></td>
</tr>
<tr>
<td>248,415</td>
<td>229,035</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. Staff costs and Directors' remuneration
The Company had only one employee during the year and incurred no staff costs except £12,500 (2002: £12,500) payable to one director.

7. Investment income

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest receivable from group undertakings</td>
<td>833</td>
<td>117</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>5,252</td>
<td>5,252</td>
</tr>
<tr>
<td>Listed investments</td>
<td>1,306</td>
<td>1,454</td>
</tr>
<tr>
<td>Deposits with credit institutions</td>
<td>31,061</td>
<td>29,562</td>
</tr>
<tr>
<td>Realised gains on investments</td>
<td>33,352</td>
<td>9,630</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>71,804</td>
<td>46,015</td>
</tr>
</tbody>
</table>

8. Investment expenses and charges

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment expenses and charges</td>
<td>5,835</td>
<td>5,357</td>
</tr>
<tr>
<td>Interest payable on bank loans and overdrafts</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Interest payable on subordinated loan from holding company</td>
<td>10,878</td>
<td>10,878</td>
</tr>
<tr>
<td>Realised losses on investments</td>
<td>22,756</td>
<td>10,032</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39,471</td>
<td>26,267</td>
</tr>
</tbody>
</table>

9. Operating profit/(loss) on ordinary activities before taxation

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and other amounts written off tangible fixed assets owned</td>
<td>1,241</td>
<td>1,275</td>
</tr>
<tr>
<td>Auditors' remuneration</td>
<td>124</td>
<td>123</td>
</tr>
</tbody>
</table>

10. Taxation

(i) Analysis of charge

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK corporation tax on income for the year</td>
<td>21,185</td>
<td>13,994</td>
</tr>
<tr>
<td>Adjustments made in respect of prior periods*</td>
<td>18,939</td>
<td>(727)</td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>40,124</td>
<td>13,267</td>
</tr>
<tr>
<td>Double Taxation Relief</td>
<td>(1,430)</td>
<td>(1,208)</td>
</tr>
<tr>
<td>Foreign tax on income for the year</td>
<td>1,701</td>
<td>1,208</td>
</tr>
<tr>
<td><strong>Total deferred tax</strong></td>
<td>1,619</td>
<td>7,703</td>
</tr>
<tr>
<td>Tax on surplus on ordinary activities</td>
<td>42,014</td>
<td>20,970</td>
</tr>
</tbody>
</table>
(ii) Factors affecting the tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit on ordinary activities before tax</td>
<td>104,150</td>
<td>72,176</td>
</tr>
<tr>
<td>Tax charge on profit on ordinary activities at 30%</td>
<td>31,245</td>
<td>21,653</td>
</tr>
<tr>
<td>Effects of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses not deductible for tax purposes</td>
<td>2,212</td>
<td>47</td>
</tr>
<tr>
<td>Capital allowances for the period in excess of depreciation</td>
<td>97</td>
<td>214</td>
</tr>
<tr>
<td>Deferred tax on short term and other timing differences</td>
<td>(12,369)</td>
<td>(7,920)</td>
</tr>
<tr>
<td>Higher tax rates on overseas earnings</td>
<td>271</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments to tax (credit)/charge in respect of prior periods*</td>
<td>18,939</td>
<td>(727)</td>
</tr>
<tr>
<td>Total current tax charge for period</td>
<td>40,395</td>
<td>13,267</td>
</tr>
</tbody>
</table>

* Of the above prior year adjustment of £18.9m (2002: £0.7m), a corresponding credit of £10.8m (2002: £nil) has been recognised in deferred tax.

(iii) Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief.

The total amount unprovided for is £2.2m. At present, it is not envisaged that any tax will become payable in the foreseeable future.

11. Land and buildings

<table>
<thead>
<tr>
<th></th>
<th>Freehold property</th>
<th>Long leasehold property</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost or valuation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>43,161</td>
<td>410</td>
<td>43,571</td>
</tr>
<tr>
<td>Revaluations</td>
<td>(8,661)</td>
<td>55</td>
<td>(8,606)</td>
</tr>
<tr>
<td>At end of year</td>
<td>34,500</td>
<td>465</td>
<td>34,965</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>1,088</td>
<td>11</td>
<td>1,099</td>
</tr>
<tr>
<td>Charged in the year</td>
<td>557</td>
<td>7</td>
<td>564</td>
</tr>
<tr>
<td>Revaluations</td>
<td>(1,645)</td>
<td>(18)</td>
<td>(1,663)</td>
</tr>
<tr>
<td>At end of year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net book value:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2003</td>
<td>34,500</td>
<td>465</td>
<td>34,965</td>
</tr>
<tr>
<td>31 December 2002</td>
<td>42,073</td>
<td>399</td>
<td>42,472</td>
</tr>
<tr>
<td><strong>Depreciable amount:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2003</td>
<td>25,980</td>
<td>465</td>
<td>26,445</td>
</tr>
<tr>
<td>31 December 2002</td>
<td>28,097</td>
<td>410</td>
<td>28,507</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Freehold property</th>
<th>Long leasehold property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td>43,161</td>
<td>410</td>
</tr>
</tbody>
</table>

The properties were revalued to £34,965,000 on 31 October 2003, the impact of the revaluation has been accounted for in the profit and loss account. The revaluation was carried out by Knight Frank, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual issued by the RICS.
12. Other financial investments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities - Government stocks</td>
<td>406</td>
<td>406</td>
<td>224</td>
<td>224</td>
</tr>
<tr>
<td>Debt securities - Corporate bonds and loans</td>
<td>41,304</td>
<td>41,304</td>
<td>10,502</td>
<td>10,502</td>
</tr>
<tr>
<td>Shares and other variable-yield securities</td>
<td>41,710</td>
<td>41,710</td>
<td>10,726</td>
<td>10,726</td>
</tr>
<tr>
<td>Deposits with credit institutions</td>
<td>955,106</td>
<td>955,106</td>
<td>772,917</td>
<td>772,917</td>
</tr>
<tr>
<td></td>
<td><strong>996,816</strong></td>
<td><strong>996,816</strong></td>
<td><strong>847,772</strong></td>
<td><strong>868,060</strong></td>
</tr>
</tbody>
</table>

Included in the above were investments:

Listed on recognised Stock Exchanges | -                 | -         | 64,129            | 84,417    |

13. Debtors arising out of direct insurance operations

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts owed by policyholders</td>
<td>418,145</td>
<td>395,264</td>
</tr>
</tbody>
</table>

14. Other debtors

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other debtors</td>
<td>16,431</td>
<td>15,480</td>
</tr>
<tr>
<td>Amount owed by Group undertakings</td>
<td>11,737</td>
<td>20,416</td>
</tr>
<tr>
<td></td>
<td><strong>28,168</strong></td>
<td><strong>35,896</strong></td>
</tr>
</tbody>
</table>

15. Tangible assets

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>7,119</td>
</tr>
<tr>
<td>At end of the year</td>
<td>7,119</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>4,150</td>
</tr>
<tr>
<td>Charged in the year</td>
<td>677</td>
</tr>
<tr>
<td>At end of the year</td>
<td>4,827</td>
</tr>
<tr>
<td>Net book value</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2003</td>
<td>2,292</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>2,969</td>
</tr>
</tbody>
</table>

16. Share capital

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised</td>
<td></td>
<td></td>
</tr>
<tr>
<td>500,000,000 ordinary shares of £1 each</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Issued</td>
<td></td>
<td></td>
</tr>
<tr>
<td>310,000,000 ordinary shares of £1 each</td>
<td>310,000</td>
<td>310,000</td>
</tr>
</tbody>
</table>
17. Reserves

<table>
<thead>
<tr>
<th></th>
<th>Profit and loss account</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>At beginning of year</td>
<td>£'000</td>
</tr>
<tr>
<td>Exchange translation differences</td>
<td>935</td>
</tr>
<tr>
<td>Retained profit for the year</td>
<td>62,136</td>
</tr>
<tr>
<td>At end of year</td>
<td>146,023</td>
</tr>
</tbody>
</table>

Unrealised investment losses amounting to £8,230,000 (2002: £20,288,000) are included in the balance of the profit and loss account reserve at the end of the year.

18. Subordinated liabilities

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated loan</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100,000</td>
<td>100,000</td>
</tr>
</tbody>
</table>

BUPA Finance PLC, a fellow subsidiary of The British United Provident Association Limited, has issued £100,000,000 of subordinated bonds that are repayable on 3 December 2018. A call option is exercisable by BUPA Finance PLC to redeem the bonds on 3 December 2013. BUPA Finance PLC (the Lender) has loaned these funds to the Company. In the event of the winding up of the Company, the claims of the Lender are subordinated in right of payment to the claims of the other creditors of the Company.

The loan has no fixed repayment date. Interest is payable at the following rates:

At 10.878% until 2 December 2013.

At 10.878% from 3 December 2013 until 2 December 2018, or, at the Lender's option, at a rate equal to 250 basis points above the Treasury 8.75% Gilt 2017 as quoted at the close of business on 2 December 2013.

From 3 December 2018 until the date of final repayment of the loan in full at the rate prevailing on 2 December 2018, or, at the Lender's option, at a rate equal to 300 basis points above the Treasury 3% '66 Aft as quoted at the close of business on 2 December 2018.

19. Technical provisions and deferred acquisition costs

<table>
<thead>
<tr>
<th></th>
<th>Provision for unearned premiums</th>
<th>Claims outstanding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>2002 At beginning of year</td>
<td>560,161</td>
<td>185,941</td>
<td>746,102</td>
</tr>
<tr>
<td>Exchange adjustment</td>
<td>508</td>
<td>882</td>
<td>1,390</td>
</tr>
<tr>
<td>Movement in the provision</td>
<td>48,014</td>
<td>(1,919)</td>
<td>46,095</td>
</tr>
<tr>
<td>At end of year</td>
<td>608,683</td>
<td>184,904</td>
<td>793,587</td>
</tr>
<tr>
<td>2003 At beginning of year</td>
<td>608,683</td>
<td>184,904</td>
<td>793,587</td>
</tr>
<tr>
<td>Exchange adjustment</td>
<td>1,454</td>
<td>1,695</td>
<td>3,149</td>
</tr>
<tr>
<td>Movement in the provision</td>
<td>53,592</td>
<td>23,781</td>
<td>77,373</td>
</tr>
<tr>
<td>At end of year</td>
<td>663,729</td>
<td>210,380</td>
<td>874,109</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical provisions at end of year</td>
<td>£'000</td>
<td></td>
</tr>
<tr>
<td>Deferred acquisition costs</td>
<td>874,109</td>
<td>793,587</td>
</tr>
<tr>
<td>Net insurance funds</td>
<td>(25,697)</td>
<td>(21,007)</td>
</tr>
<tr>
<td></td>
<td>848,412</td>
<td>772,580</td>
</tr>
</tbody>
</table>
20. Provisions for other risks and charges

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>At beginning of year</td>
<td>£'000</td>
</tr>
<tr>
<td>Other movements</td>
<td>10,309</td>
</tr>
<tr>
<td>Charge for year</td>
<td>11,066</td>
</tr>
<tr>
<td>At end of year</td>
<td>11,121</td>
</tr>
</tbody>
</table>

This represents provision for a potential levy by the Financial Services Compensation Scheme. This provision is expected to be utilised within the next year.

21. Amounts owed to credit institutions

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdrafts</td>
<td>5,413</td>
<td>161</td>
</tr>
</tbody>
</table>

22. Other creditors including taxation and social security

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation tax payable</td>
<td>5,695</td>
<td>2,123</td>
</tr>
<tr>
<td>Other creditors</td>
<td>22,116</td>
<td>19,600</td>
</tr>
<tr>
<td>Amounts owed to Group undertakings</td>
<td>66,973</td>
<td>34,765</td>
</tr>
<tr>
<td></td>
<td>94,784</td>
<td>56,488</td>
</tr>
</tbody>
</table>

23. Accruals and deferred income

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other accruals and deferred income</td>
<td>11,423</td>
<td>8,133</td>
</tr>
</tbody>
</table>

24. Deferred Tax

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>At beginning of year</td>
<td>£'000</td>
</tr>
<tr>
<td>Deferred tax charge for the year</td>
<td>4,785</td>
</tr>
<tr>
<td>At end of year</td>
<td>(1,619)</td>
</tr>
<tr>
<td></td>
<td>3,166</td>
</tr>
</tbody>
</table>

Deferred tax assets and liabilities are analysed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated capital allowances</td>
<td>368</td>
<td>260</td>
</tr>
<tr>
<td>Other timing differences</td>
<td>(3,534)</td>
<td>(5,045)</td>
</tr>
<tr>
<td></td>
<td>(3,166)</td>
<td>(4,785)</td>
</tr>
</tbody>
</table>

25. Contingent liabilities

Under a group registration the Company is jointly and severally liable for value added tax due by certain other companies in the BUPA Group.

26. Commitments

The Company had no capital commitments at the end of the year.

27. Related party transactions

No Director had any material interest in any contracts with Group companies at the end of 2003 or at any time during the year.

The Company has taken advantage of the exemption contained in Financial Reporting Standard No 8 "Related Party Disclosures" (FRS8) and has therefore not disclosed separately transactions or balances with entities which form part of the BUPA Group of companies.
UNITED KINGDOM REGULATION

Insurance business

The principal members of the Group are United Kingdom authorised insurance companies and are subject to the regulation and supervision of the FSA under the Financial Services and Markets Act 2000. Apart from the Financial Services and Markets Act 2000, these insurers must also comply with the rules and guidance made by the FSA under powers granted by the Financial Services and Markets Act 2000. An important source of these rules and guidance is the Interim Prudential Sourcebook for Insurers (the "IPSB").

Permission to transact business

Subject to the exemptions provided in the Financial Services and Markets Act 2000, no person may carry on insurance business in the United Kingdom unless permitted to do so under the Financial Services and Markets Act 2000 by the FSA. The FSA, in deciding whether to grant permission, is required to determine whether the applicant satisfies the requirements of the Financial Services and Markets Act 2000 to be engaged in insurance business and in particular whether the applicant is a fit and proper person having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently). A permission to carry on insurance business may include such requirements, as the FSA considers appropriate.

Regulatory reporting

UK insurance companies have to prepare their accounts in accordance with special provisions applicable to them under the Companies Act 1985, and are required to file, and provide their shareholders with, audited financial statements and related reports. Insurance companies are separately required under the IPSB to deposit with the FSA an annual return comprising audited accounts and other prescribed documents within three months of the end of the relevant financial year, if the deposit is made electronically, and otherwise within two months and fifteen days of the end of the relevant financial year.

Margins of solvency and reserves

Under the IPSB, individual companies permitted to carry on insurance business in the United Kingdom are required to maintain a margin of solvency, that is, the value of their assets must exceed the amount of their liabilities (each as determined in accordance with the Valuation of Assets Rules and Determination of Liabilities Rules set out in the IPSB) by a specified amount. Failure to maintain the required margin of solvency is one of the grounds upon which the FSA may exercise its powers of intervention.

Supervision and enforcement

The FSA has wide powers to supervise, and intervene in, the affairs of an insurance company under the Financial Services and Markets Act 2000. It can, for instance, require firms to provide particular information or documents to it, require a firm to prepare a "skilled persons" report or formally investigate a firm. It has the power to take a range of disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and the award of compensation.

Future developments

The IPSB is due to be replaced at the end of 2004 by the Integrated Prudential Sourcebook, which is expected to require firms to analyse the risks being run within their business and to align their capital more closely to those risks. The Guarantor has agreed its resultant internal capital assessment with the FSA, resulting in a reduced capital requirement. It is also expected (amongst other things) to introduce new disclosure and regulatory requirements. In a separate development, it is expected that a new regime to regulate the conduct of general insurance business for the first time is being introduced from 14 January 2005.
UNITED KINGDOM TAXATION

The comments below are of a general nature based on the Issuer’s understanding of current United Kingdom law and practice. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and Coupons and may not apply to certain classes of taxpayer (such as dealers, certain professional investors, companies associated with the Issuer and “funded companies”). They deal only with the United Kingdom taxation of payments of interest on the Bonds.

Prospective Bondholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek independent advice.

Payments of Interest on the Bonds

The Bonds will constitute “quoted Eurobonds” within the meaning of section 349(4) of the Income and Corporation Taxes Act 1988 (for the purpose of the following, the “Act”) while the Bonds continue to be listed on a “recognised stock exchange” within the meaning of section 841 of the Act. The London Stock Exchange is a recognised stock exchange. Under an Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and admitted to trading by the London Stock Exchange. Accordingly, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

If the Bonds cease to be listed on a recognised stock exchange interest will generally be paid under deduction of income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Further United Kingdom Income Tax Issues

The interest on the Bonds has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Bonds who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or by or for which the Bonds are used or held or, if the Bondholder is a company, where that Bondholder carries on a trade in the United Kingdom through a permanent establishment to which the interest is attributable). There are exemptions for interest received by certain categories of agents.

Bondholders should note that the provisions relating to additional amounts referred to in Condition 8 would not apply if the Inland Revenue sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Bonds ceased to be listed), Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
ABN AMRO Bank N.V. and HSBC Bank plc (together, the "Managers") have, pursuant to a subscription agreement dated 15 December, 2004 (the "Subscription Agreement"), agreed with the Issuer to subscribe and pay for the Bonds at 99.088 per cent. of the principal amount of the Bonds. The Issuer will pay to the Managers a commission of 1.00 per cent. of the principal amount of the Bonds.

The Managers have agreed to repay certain amounts payable by the Issuer in connection with the issue. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

Selling Restrictions

United States

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to a registration statement under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has severally agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds within the United States by any dealer (that is not participating in the offer) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has severally represented, warranted and agreed that:

(A) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part VI of the Financial Services and Markets Act 2000, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services and Markets Act 2000;

(B) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer or the Guarantor; and

(C) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The Netherlands

Each Manager has severally represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in or from The Netherlands, whether at their initial distribution or any time thereafter, any Bonds (including rights representing an interest in a Bond in bearer form) other than to persons who trade or invest in securities in the conduct of a profession or business (which includes banks, stockbrokers, insurance companies, pension funds, other institutional
investors and finance companies and treasury departments of large enterprises) unless one of the other exemptions or exceptions to the prohibition contained in Article 3 of the Dutch Securities Transactions Supervision Act 1995 ("Wet toezicht effectenverkeer 1995") is applicable and the conditions attached to such exemption or exception are complied with.

General

Save for obtaining the approval of this Offering Circular as listing particulars by the UK Listing Authority and delivery of a copy of this Offering Circular to the Registrar of Companies in England and Wales, no action has been taken or will be taken by the Issuer, the Guarantor or any of the Managers that would, or is intended to, permit a public offer of the Bonds or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds in any country or jurisdiction where any such action for that purpose is required.

Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and all offers and sale of Bonds by it will be made on the same terms.
GENERAL INFORMATION

1. The listing of the Bonds on the Official List will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that the listing of the Bonds on the Official List and admission to trading on the London Stock Exchange's market for listed securities will be granted on or around 20 December, 2004, subject only to the issue of the Temporary Global Bond. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the date of the transaction.

2. The Bonds, which are debt obligations, have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN, Common Code and SEDOL for the Bonds are as follows:

<table>
<thead>
<tr>
<th>ISIN</th>
<th>Common Code</th>
<th>SEDOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>XS0208374891</td>
<td>020837489</td>
<td>B04YFW4</td>
</tr>
</tbody>
</table>

3. The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 29 November, 2004 and the giving of the Guarantee by the Guarantor was authorised by a resolution of the board of directors of the Guarantor passed on 29 November, 2004 and a resolution of the Guarantor's shareholders passed on 15 December, 2004.

4. KPMG Audit Plc, Chartered Accountants and Registered Auditors, of 1 Canada Square, Canary Wharf, London E14 5AG, have audited the Issuer's consolidated accounts and the Guarantor's unconsolidated accounts for the three financial years ended 31 December 2001, 31 December 2002 and 31 December 2003 in accordance with generally accepted auditing standards in the United Kingdom. KPMG Audit Plc has given, and has not withdrawn, its consent to the inclusion of its report in this Offering Circular in the form and context in which it is included and has authorised the contents of that part of the Offering Circular for the purposes of regulation 6(l)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 (as amended). The auditors have made reports under section 235 of the Companies Act 1985 (the "CA") on such statutory accounts which were not qualified within the meaning of section 262 of the CA and did not contain any statements made under section 237(2) or (3) of the CA. The reports of the auditors for the financial years ended 31 December 2002 and 31 December 2003 contain statements that their reports are made solely to the members as a body of the company to which the report related in accordance with section 235 of the CA and that their audit work has been undertaken so that they might state to the members those matters which the auditors are required to state to them in an auditors report and for no other purpose and that, to the fullest extent permitted by law, the auditors do not accept or assume responsibility to anyone other than the company to which the report related and the company's members as a body for their audit work, for their reports, or for the opinions they have formed.

5. The financial information contained in this Offering Circular does not constitute statutory accounts (within the meaning of section 240 of the Companies Act 1985) for any year or other period. Statutory accounts for the years ended 31 December, 2001, 31 December, 2002 and 31 December, 2003 have been delivered to the Registrar of Companies in England and Wales.

6. The Trust Deed will provide that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed whether or not any such certificate, report, engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any limit (whether monetary or otherwise) on the liability of the Auditors.

7. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer, the Guarantor or the Group and there has been no material adverse change in the financial position or prospects of the Issuer, the Guarantor or the Group since 31 December, 2003.

8. Neither the Issuer, the Guarantor nor any member of the Group is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or Guarantor is aware) which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Group.
9. Copies of the following documents may be inspected at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days from the date of this Offering Circular:

(A) the memorandum and articles of association of the Issuer and the Guarantor;
(B) the Subscription Agreement;
(C) drafts (subject to modification) of the Trust Deed and the Paying Agency Agreement;
(D) this Offering Circular; and
(E) the audited consolidated accounts of the Issuer and the audited unconsolidated accounts of the Guarantor for each of the two financial years preceding the publication of this Offering Circular, including all notes, reports or information required by the Companies Acts 1985 and 1989.
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